Remaking Lloyd's
A down-to-earth survival plan
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Can it face up to radical change?
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FINANCIAL TIMES

Europe's Business Newspaper — FRIDAY APRIL 30 1993

Schlesinger damps hopes for rapid fall in rates

By Peter Norman, Economics Editor, in Washington

THE BUNDESBANK president yesterday damped hopes *for a rapid* decline in European interest rates, warning that Germany was "still not over the hump" in its attempts to control inflation.

Mr Helmut Schlesinger, the central bank's president, warned that this week's sharp *reduction in German* money market rates did not signal the start of aggressive interest rate cuts.

Speaking at a press conference before yesterday's meeting of Group of Seven finance ministers, he said there would be negative consequences for the *D-Mark and German capital markets if* the country cut rates aggressively.

In spite of Mr Schlesinger's remarks, the level of German interest rates was due to be discussed at the G7 meeting. In particular, Mr Norman Lamont, the UK chancellor, was expected to query *whether the world was doing enough to* promote economic activity.

Although Mr Lamont has welcomed this week's German cut in its "repo" rate to 7.75 per cent from 8.09 per cent, he has made no secret of his belief that German rates should have come down sooner and by more.

Underlying his cautious approach, Mr Schlesinger said Germany had the highest inflation rate of the leading industrialised countries and that only four members of the 24-nation Organisation for Economic Co-operation and *Development had higher inflation. It was true,* he said, that inflation was a lagging indicator that reflected past events. But it also influenced people's expectations and had to be taken seriously.

The Bundesbank president said Germany had used its available manoeuvring room to cut rates. Germany's short-term interest rates had fallen by about 2 percentage points since September. Long-term rates at about 6.5 per cent were among the lowest in the world and should foster investment.

He also rebuffed criticism that *Germany's short-term rates were keeping* borrowing costs too high on the European continent. The recent fall in French interest rates showed that the credibility of countries' policies was the key factor determining interest rates. Inside the European exchange rate mechanism, Belgium and the Netherlands had lower rates than Germany, he noted.

Germany had been able to cut rates because its money supply growth had moved into line with the Bundesbank's

Continued on Page 16
IG Metall to begin strikes, Page 2
Morale in the old east, Page 2

West struggles to agree on Bosnia intervention plan

Western governments yesterday struggled to maintain a united front on proposals for outside military intervention in Bosnia, amid growing reports of disagreements over what option should be chosen.

A senior Nato official said the chances of decisive western military intervention in Bosnia were fading. Page 16; Czech-Slovak leaders to hold emergency talks, Page 2

Yeltsin gives reform go-ahead: Russian president Boris Yeltsin, claiming victory in Sunday's *referendum, started the process of adopting* a new constitution and gave the go-ahead to his most radical ministers to initiate financial stabilisation. Page 16; Russian arithmetic does not add up, Page 15

China and Taiwan sign agreements: China and Taiwan, bitter enemies for more than 40 years, signed agreements in Singapore. Page 16

German steelworkers to strike: IG Metall, Germany's most powerful trade union, is to begin indefinite strikes involving more than 28,000 workers on Monday at 50 plants throughout eastern Germany in support of higher pay. Page 2; Beijing likely to rival Tokyo steelmaking

Bank of France cuts key rates: The Bank of France cut its two key interest rates. The intervention rate was cut by 25 basis points to 8.25 per cent and the 5-10 day lending rate by the same amount to 9.25 per cent. Page 3

GM results improve: General Motors, the US carmaker in the throes of a big restructuring, reported better than expected first quarter income of $513m. Earnings improved $680m from the first quarter of last year, when GM lost $167m. Page 17

Hussein's vision faces test:

King Hussein (left), formally assumed constitutional powers in Jordan 40 years ago on Sunday. His democratic vision for the future will face its most crucial test yet at the forthcoming parliamentary elections. Hussein tries to cope with Islamic surge, Page 5

Blow to Italian PM: Italy's former communist party said it would not support prime minister Carlo Azeglio Ciampi after parliament blocked an inquiry into former prime minister Bettino Craxi. Ciampi changes the rules of the game, *Page 3*

Fiat executive returns: Giorgio Garuzzo, chief operating officer of Fiat, the Italian car group, was being questioned by Milan magistrates following his return to Italy after the issue of a cautionary warrant on April 7 for alleged corruption.

Sutherland favourite for Gatt job: Former EC competition commissioner Peter Sutherland is clear favourite to take over this summer as director-general of the General Agreement on Tariffs and Trade. Page 5

The Observer: *The future of The Observer,* one of Britain's oldest newspapers, looked secure last night after Lonrho, the international trading conglomerate, said it had received an "acceptable" offer from the Guardian and Manchester Evening News. Page 8; Guardian of tradition, Page 14

ICI profits rise 10%: Imperial Chemical Industries increased pre-tax profits by 10 per cent to £233m ($359m) in the first quarter of the year, the last time the chemicals and bioscience group will produce results on its pre-demerger basis. Page 17; Lex, Page 16

UAL reports $138m loss: UAL, the parent company of United Airlines, one of the big three US carriers, reported a loss of $138m for the first quarter, compared with an underlying deficit of $108m in the same period of 1992. Page 20

Christiania Bank returns to profit: Christiania Bank, Norway's second-biggest commercial bank, reported a return to profits for the first quarter of 1993. The bank achieved a net profit of NKr209m ($31.2m), against a loss of NKr86m in the same period. Page 21

Silver hits new highs: Buying of silver drove precious metals markets in London to new highs. Silver was fixed at a 21-month peak of $4.36 an ounce. Commodities, Page 32

■ STOCK MARKET INDICES		
FT-SE 100:	2786.8	(-10.5)
Yield	4.09	
FT-SE Eurotrack 100	1143.23	(-11.75)
FT-A All-Share	1377.21	(-0.4%)
Nikkei	closed	
New York lunchtime		
Dow Jones Ind Ave	3401.61	(-11.89)
S&P Composite	436.57	(-1.45)
■ US LUNCHTIME RATES		
Federal Funds:	$2\frac{15}{16}$%	
3-mo Treas Bills: Yld	2.941%	
Long Bond	$102\frac{3}{32}$	
Yield	6.890%	
■ LONDON MONEY		
3-mo interbank	$6\frac{1}{8}$%	($6\frac{1}{8}$%)
Liffe long gilt future:	Jun $103\frac{15}{32}$	(Jun $104\frac{12}{32}$)
■ NORTH SEA OIL (Argus)		
Brent 15-day (June)	$19.025	(18.76)
■ Gold		
New York Comex June	$357.4	(354.4)
London	$355.25	(351.65)

■ STERLING		
New York lunchtime:		
$	1.572	
London:		
$	1.571	(1.5715)
DM	2.485	(2.4925)
FFr	8.3725	(8.4075)
SFr	2.2475	(2.2525)
Y	175.25	(176.75)
£ Index	81.0	(81.1)
■ DOLLAR		
New York lunchtime:		
DM	1.582	
FFr	5.3335	
SFr	1.429	
Y	111.25	
London:		
DM	1.5815	(1.586)
FFr	5.33	(5.35)
SFr	1.43	(1.4335)
Y	111.6	(112.4)
$ Index	63.6	(63.9)
Tokyo Y closed		

Austria	Sch30	Greece	Dr300	Lux	LFr60	Qatar	QR12.00		
Bahrain	Din1.250	Hungary	Ft172	Malta	Lm0.60	S.Arabia	SR11		
Belgium	BFr60	Iceland	IKr180	Morocco	MDh13	Singapore	S$4.10		
Bulgaria	Lv25.00	India	Rs40	Neth	Fl 3.75	Slovak Rp	KSL45		
Cyprus	C£1.00	Indonesia	Rp3800	Nigeria	Naira90	Spain	Pta200		
Czech Rp	Kcs45	Israel	Shk6.90	Norway	NKr16.00	Sweden	SKr15		
Denmark	DKr15	Italy	L2700	Oman	OR1.50	Switz	SFr3.20		
Egypt	E£4.50	Jordan	JD1.50	Pakistan	Rs35	Syria	S£50.00		
Finland	FM12	Korea	Won 2500	Philippines	Pso45	Thailand	Bht50		
France	FFr8.50	Kuwait	Fils.600	Poland	Zl 22,000	Tunisia	Din1.250		
Germany	DM3.30	Lebanon	US$1.25	Portugal	Es215	Turkey	L7000		
						UAE	Dh11.00		

Annual rate down to 1.8% in first quarter

US growth falls sharply after exports weaken

By Michael Prowse in Washington

US ECONOMIC growth fell sharply in the first quarter to an annual rate of 1.8 per cent as consumer spending slowed and exports weakened, the Commerce Department said yesterday.

Mr Ron Brown, commerce secretary, said the figures showed the economy was growing, but at "an unacceptably low rate". He *said the Clinton administration* would work with its trading partners – particularly Japan – to expand exports.

The figures were worse than widely expected on Wall Street, which had forecast growth at an annual rate of 2-2.5 per cent in the quarter. Share prices declined modestly in early trading.

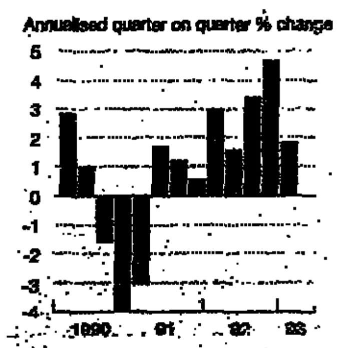
Most economists, however, continue to expect an acceleration of growth later this year to an underlying rate of close to 3 per cent.

The sluggish expansion in the first quarter followed growth at *an annual rate of 3.4 per cent and* 4.7 per cent respectively in the third and fourth quarters of last year.

Referring to the Republicans' successful filibuster of the administration's economic stimulus, Mr *Brown said* "a modest and focused jobs package" remained essential to shore up confidence and boost the growth of incomes and employment.

US GDP

Annualised quarter on quarter % change



Source: Datastream

The first quarter figures showed across-the-board weakness compared with late last year. In real terms, consumption grew at an annual rate of only 1.2 per cent against 5.1 per cent in the fourth quarter. Fixed invest*ment by business grew at 5.6 per* cent against 9.7 per cent. Exports contracted at an annual rate of 7.1 per cent versus growth of 8.9 per cent.

The figures also confirmed a standstill in the housing sector, *in spite of the lowest mortgage* rates in 20 years. Residential investment grew at an annual rate of only 0.2 per cent against 25.1 per cent in the fourth quarter.

Inflation figures also deteriorated, with a broad index rising at an annual rate of 3.3 per cent in the first quarter against 2.3 per cent at the end of last year.

Early data for April, however, are more encouraging, indicating that some of the weakness *reflected severe winter weather.* Retail sales and vehicle sales have risen in recent weeks; consumer confidence also rebounded this month, although not to the levels of last December.

"We expect growth to bounce back to 3 per cent at an annual rate in the second quarter," said Mr Jim O'Sullivan, an economist at J.P. Morgan, the New York bank. He noted several special factors that had pulled down first quarter growth, including an erratic decline in defence spending at an annual rate of 25 per cent.

The weak first quarter was probably also a reaction to unsustainably fast growth in the fourth quarter.

Yen dispute gone but not forgotten, Page 6
US stocks, Back page, Section 2

Norway's PM warns fishing row may block EC entry

By David Gardner in Oslo

NORWAY'S determination to *retain exclusive right to its rich* fishery resources could prevent it from joining the European Community, Mrs Gro Harlem Brundtland, the Norwegian prime minister, warned yesterday. This confirmed fears that Norway's *application for membership will* be the toughest to negotiate in the current talks on enlarging the EC.

"On the issue of fish we are talking about a vital issue, something which left Norway outside European co-operation in 1972 and could so so again," Mrs Brundtland said in an interview.

Norwegian voters rejected EC membership in 1972, when the UK, Denmark and Ireland joined the Community. Austria, Sweden, Finland and Norway are all negotiating to join the EC. Polls this month show Norwegian opinion running 53 per cent against EC membership, with 36 per cent for and 11 per cent undecided.

Mrs Brundtland's minority Labour government is plummeting in the polls ahead of a general election in September which will be dominated by the EC membership debate. The right-of-*centre coalition she replaced in* November 1990 fell over internal differences on Europe.

Mr Jan Henry Olsen, Norway's fisheries minister, said in a separate interview that Norwegians "have no fish to give away". He said Oslo had already given away too much through restricted fishing rights in Norwegian waters conceded to EC countries when Norway joined the European Economic Area (EEA), set up between the EC and European Free Trade Association countries.

Norway's Storting (parliament) was expected to ratify the EEA treaty last night. "If the EC asks for more quotas it could stop Norway joining the Community," Mr Olsen said bluntly. The 200-*mile limit around Norway's coast* is "our arable land", he added.

Mrs Brundtland supported Mr Olsen, saying: "Norway was squeezed sufficiently over the EEA treaty."

The fisheries issue alone is certain to spark hostility from fishing nations like Spain, which wants access to Norwegian waters in compensation for unimpeded access for Norway's fish products in the EC single market.

But Norway's insistence on *reserving half of all exploration* rights to its rich oil and gas reserves for its state oil company Statoil, is another point of friction. Draft legislation being prepared by Brussels would outlaw this preference as discriminatory.

Unlike its fellow applicants, which hoped to conclude entry negotiations this year, hold referendums next year, and accede to the EC in 1995, Norway is resigned to a long haul, probably *extending well into next year.*

Gro Harlem Brundtland: The issue of fish left Norway outside European co-operation in 1972 and could so so again

Lloyd's announces radical shake-up

By Richard Lapper and Andrew Jack

LLOYD'S of London yesterday unveiled a radical plan to restructure the insurance market, reduce costs and attract corporate capital for the first time.

Lloyd's also confirmed that its losses for the 1990 year, which will be reported in June, will amount to between £2.5bn. and £2.8bn, a record deficit. Mr David Rowland, chairman, said: "In a competitive world we have per*formed very poorly.*"

The market's first "business plan" offered a glimmer of hope for loss-making Names – the individuals whose assets support underwriting – but no specific proposals to end legal actions between *Names* and their agents.

Introducing a report highly critical of Lloyd's in the past, Mr Rowland said: "It contains measures which overturn some of our traditions but those are traditions that no longer serve us *well . . . Should membership* and market not unite behind this

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Editorial comment, Page 15
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Queen Elizabeth to open Buckingham Palace to tourists

By Gary Mead in London

BUCKINGHAM Palace is to be *opened to the public for the first* time this summer, prompted by royal glasnost and financial necessity. Fees paid by visitors will help to pay for the restoration of Windsor Castle after the fire last November.

The palace will open from the second week of August for about two months, with an adult entrance fee of £8 ($12.50), £5.50 for people over 60 and £4 for those under 17.

Over the next five years, the revenues, plus a new £3 entrance charge for Windsor, will pay for 70 per cent of the estimated £30m to £40m ($63m) repair bill for fire damage at Windsor, Mr Peter Brooke, Britain's national heritage secretary, said yesterday. The rest will be paid by the state.

Paying visitors to Buckingham Palace will be able to see 17 state rooms, gardens and the west elevation. They will not be allowed into the private quarters of Queen Elizabeth II, the Duke of Edinburgh or Prince Edward, or into working offices.

The palace would not speculate yesterday on how many visitors it expected. Some 40,000 people already visit the palace each year by personal invitation of the Queen. But if the final bill for the restoration of Windsor totals £40m, the equivalent of 3.5m *adult visitors* will be required to cover the monarchy's share.

The public opening of the palace – built in 1677 and originally called Buckingham House – will be short-lived. The gates will probably close again by the end of 1997, when the restoration of Windsor should be completed.

A palace spokesman said the entrance fees were arrived at after considering charges at "similar types of attraction". Sandringham and Balmoral, two of the Queen's private residences – Buckingham Palace is owned by the nation – are already open for limited periods of the year.

But the White House in Washington is open year round at no charge, and Japanese imperial residences, such as the palace in Kyoto and three other villas, are open year round. They also make no charge – although visitors are required to carry their passports.

Several other European royal residences are already open. In Madrid, the Palacio Real is open all year, as is the Royal Palace in Amsterdam and the small Palais du Prince in Monaco. The Palais Royal, in *Brussels,* is open between June and September. Most charge admission fees.

CONTENTS

IG Metall prepares for show of power

By Judy Dempsey in Berlin and Quentin Peel in Bonn

IG METALL, Germany's most powerful union, yesterday announced it would begin indefinite strikes in selected enterprises throughout eastern Germany in support of higher pay.

The strikes, which will involve over 28,400 workers at 50 steel and engineering enterprises, will mark a watershed in eastern Germany's turbulent history: it is the first time for more than 60 years that the region's workers have officially called a strike.

The strikes, scheduled to start on Monday, will affect the steel industry throughout eastern Germany, and the metal and electrical sectors in the northern shipbuilding state of Mecklenburg Western Pomerania, and the heavy industry eastern state of Saxony. They are aimed at putting pressure on the employers to uphold a contract signed between the employers, east German managers, and IG Metall in March 1991. The contract was designed to equalise eastern and western German wages from April of next year.

Gesamtmetall, the metal and electrical employers' association, and Arbeitgeberverband, the steel employers' association, pulled out of the contract for economic reasons. Officials said they could not pay wage increases of over 20 per cent for both sectors because of the recession in western and eastern Germany. Instead, they recommended pay increases of 9 per cent. Wages in eastern Germany are about 70 per cent of western German levels. The cancelled pay increases would have brought them up to about 80 per cent of their western counterparts.

Mr Franz Steinkühler, IG Metall's president, said if the employers continued to refuse to reinstate the contract, additional ballots would be held among the metal and electrical sectors in the three remaining states of Berlin-Brandenburg, Thuringia, and Saxony-Anhalt.

Employers are still hoping that talks today with IG Metall in the metal and electrical sector in Thuringia might break the deadlock.

Meanwhile, in west Germany, the fate of the Krupp steel plant at Duisburg-Rheinhausen was sealed when the supervisory board of Krupp Stahl gave the go-ahead for the closure of the plant that will see some 2,100 workers lose their jobs.

At the same time, some 100,000 miners demonstrated in nearby Bochum for the maintenance of state subsidies for the industry.

They heckled and whistled at Mr Günter Rexrodt, the economics minister, when he promised state support for continuing coal production of at least 50m tonnes for both steel and electricity generation.

There were indications yesterday, however, that the Klöckner-Hütte steelworks in Bremen, the main plant in the Klöckner-Werke group, may be reprieved with a substantial debt-relief package agreed with creditors.

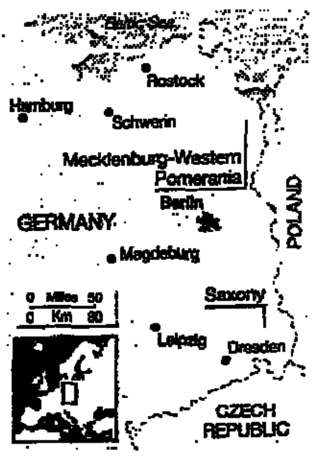
Morale suffers in the old east

The consensus is it has not been a good week for east Germany, writes Judy Dempsey

SOME east Germans might believe in the conspiracy view of history. Others might put it down to a string of unfortunate coincidences. Either way, the consensus is that this has not been a good week for eastern Germany.

First there was a fire – allegedly arson – at the central land registry at Barby, near Magdeburg, in eastern Germany. This is usually the place where anyone seeking restitution or compensation for property confiscated either by the Nazis or the communists comes to identify what happened to their land over the past 50 years.

In an old castle which has become a huge storeroom, shelves stretching for some 15 km hold large, bound books. Little is on computer. The authorities reckon that thousands of pre-war records were destroyed in the fire. The point is that, despite priority given to investors over restitution, sorting out who owns what before final investment decisions are made might well be further delayed. Then there



was the decision by the European Commission against recommending public subsidies by the German government to modernise Ekostahl, the largest steel producer in eastern Germany. Located near the Polish border, Ekostahl, which in its heyday employed more than 11,000 people, sustains the town and environs of Eisenhüttenstadt, with a population of 50,000.

The Treuhand, the agency responsible for privatising eastern German industry and which owns Ekostahl, has thrown its weight behind turning the plant into a mini-mill: equipped with a highly-skilled work force of about 1,000, producing over 1m tons of high-quality steel a year and capable of competing with the best of west German steel manufacturers.

The problem is that a hot-rolling mill and, at a later stage, a mini-mill providing steel to the Opel car plant in eastern Germany, would require subsidies of well over DM1.1bn (£440m). The western German steel federation has opposed the idea – not just because it would re-open the question about over-capacity in Germany; but, as Treuhand officials admit, the west Germans do not want competitive steel from eastern Germany.

To damp morale even further, IG Metall, (western) Germany's powerful engineering union, obtained, what it believed was a resounding vote of confidence by eastern German steel, and engineering workers to stage an all-out strike in eastern Germany, beginning next week. The irony is that workers at Ekostahl openly say they would prefer to work and not strike.

IG Metall wants to use the strike to force employers to rescind a contract, signed in March 1991, between employers, the unions, and eastern German managers. That contract would have equalised eastern and western German wages by April 1994.

The employers pulled out of the contract, invoking a revision clause allowing them to do so if economic conditions had changed radically for the worse. IG Metall has persistently argued that the employers wanted to get rid of the traditional system of collective wage bargaining.

Ambiguity towards a strike among eastern Germans was tapped by IG Metall, whose message to the region's workers was blunt. "Since the easterners are going to be unemployed sooner or later, they might as well vote for a strike in support of higher wages so that they can obtain higher unemployment benefit," one union official explained. IG Metall, which also wanted to prove that it could reawaken "working-class consciousness", suffocated by the Nazis and the communists, and display its own power.

But if strikes do take place, and if investors pull out, IG Metall through further job losses in eastern Germany will lose more members. In 1991, it had more than 750,000 in the region. Today, it has less than 400,000. Moreover, strikes would weaken further eastern Germany's attempts at becoming competitive through low labour costs. It is precisely the difficulty in making eastern industry competitive, and the persistent lack of confidence, which links this week's incidents.

Employers' associations and unions admit that decisions over the east's wage dispute are made at the "centre", where they are based. "The eastern German states have no power whatsoever. In some ways, the wage dispute is about a power struggle between Cologne and Frankfurt," an official from Arbeitgeberverband Stahl, the steel employers' association said.

French caution on border check pact

By David Buchan in Paris and Andrew Hill in Brussels

FRANCE, the first European Community country to ratify the Schengen free travel agreement, yesterday forecast that the conditions for lifting border checks on travellers would not be met "before the end of this year, or even for quite a long period".

Mr Alain Lamassoure, France's new EC affairs minister, told parliament France would be "intransigent" in maintaining police controls on its borders with other signatories of the 1990 Schengen pact until a variety of political and technical problems were solved. Such problems included, he said, Germany's difficulty in ratifying Schengen until it changed its asylum law, and Italy's "inability to reinforce its external border controls" and its recent referendum decision to de-penalise drugs, as the Dutch have done.

But France's tougher stance towards Schengen also reflects the new centre-right government's intention to crack down on crime and illegal immigration. An opinion poll released yesterday showed that four out of five French people want illegal immigrants systematically expelled from the country.

An adviser to Mr Charles Pasqua, the hardline interior minister, recently claimed that while French tribunals regularly order the deportation of some 25,000 people each year, only about 10,000 actually leave the country.

Peace finds convert in Milosevic

By Laura Silber in Belgrade

WESTERN diplomats this week had the unusual task of interpreting what appeared to be the first public dispute between President Slobodan Milosevic of Serbia and Serb leaders in Bosnia.

In a letter on Monday to the self-styled Bosnian Serb parliament, Mr Milosevic criticised their refusal to endorse the Vance-Owen peace plan. He accused the Bosnian Serb leadership of making 10m citizens of Serbia and Montenegro bear the burden of tighter United Nations sanctions.

The Bosnian Serbs had rejected the plan because it left Serbs in Bosnia surrounded by the enemy.

"Milosevic's letter was part of a political move to get a signature on the agreement," says a western diplomat, who believes that the Serbian president is prepared to turn on his allies to win the favour of the international community.

Mr Milosevic's conversion may have stemmed in part from the fact that Russian voters endorsed President Yeltsin's policies in a referendum on Sunday. The outcome of the vote was a shock to Serbian leaders, who had assumed that Mr Yeltsin would be defeated and that a more supportive government would come to power in Moscow.

Mr Milosevic in the past has excelled at changing positions to suit the crisis of the moment. In January 1992, he suddenly became a man of peace after six months of war and destruction in Croatia. He engineered the ousting of Serb leaders from the rebel state of Krajina, in Croatia, who opposed the plan drawn up by Mr Cyrus Vance, the international mediator.

Relatives of a 13-year-old boy killed together with two playmates in a Sarajevo mortar attack weep at his funeral yesterday

He also played a conciliating role in Geneva at the beginning of this year when he twisted the arm of Mr Radovan Karadzic, the Bosnian Serb leader, to make him endorse the constitutional principles section of the Vance-Owen peace plan.

Part of his tactics in the past included a vicious smear campaign against the Krajina Serb leadership in the Serbian media. Such a campaign has so far not materialised against Bosnian Serb leaders, but this week state-run Television Serbia, which has spewed out anti-western propaganda for months, toned down its coverage and came out in support of the Vance-Owen plan. It even cast Lord Owen, previously vilified for saying that it might be necessary to bomb Serb targets in Bosnia, in a favourable light and presented him as fighting to defend Serbian interests.

In the first sign that Bosnian Serb deputies were ready to heed the most powerful man in Serbia, yesterday their self-styled assembly agreed to meet on May 5 to reconsider the Vance-Owen maps which would split Bosnia into 10 semi-autonomous regions divided on ethnic lines.

Diplomats believe the Serbian president will also succeed in persuading Mr Karadzic to approve the Vance-Owen maps.

But the question remains whether any Serbian leader is prepared to implement the plan. The proposal calls for Serb forces to give up between one third and one-half of the territory they have conquered over the past year.

"If Serbia and Montenegro want to re-enter the family of nations, the signatures must be followed up by implementation of the plan," said the diplomat. "Bosnian Serb forces must be ready to stop the violence. They are not responsible for all the killing, but they have the preponderance of force," he added.

But despite his readiness to exert pressure on Bosnian Serb leaders, Mr Milosevic has so far not indicated that he is prepared to follow up on the peace plan.

A ray of colour in drab Albania

Europe's poorest economy is making progress, writes Kerin Hope

MOST factories are still closed, but the ubiquitous stalls selling cigarettes, soap and Pepsi Cola, adding a splash of colour to Tirana's drab streets, indicate that Albania's transition to a market economy is under way.

With about 310,000 unemployed and another 200,000 Albanians working illegally in Greece, people in Europe's poorest country have been forced to make radical adjustments in the year since the election of a democratic government ended a half-century of Stalinist self-sufficiency.

Out-of-work diplomats and engineers trade lek for dollars and drachmas in the foreign exchange market, held in the street outside the central bank. While banking reform is painfully slow, the lek has stabilised since the government adopted a harsh reform package last August in return for an $18m stand-by loan from the International Monetary Fund.

Food prices have been liberalised, with the exception of bread. Rents were raised sharply, while petrol for a burgeoning fleet of secondhand trucks and battered private cars is sold at international prices.

Nevertheless, the monthly inflation rate has fallen steadily after a 47 per cent jump in response to price liberalisation last August, dropping to 6.3 per cent in January and just 0.9 per cent in March. The finance ministry forecasts that year-on-year inflation will be held at 45 per cent in 1993.

"I think we've done better than other ex-communist countries in stabilising the economy, even though we'd no experience at all of a free market," says Mr Genc Ruli, finance minister.

However, with real wages and unemployment benefits both showing a sharp decline, remittances from Albanians working abroad, estimated at more than $300m in the past year, have been crucial in cushioning the impact of market reforms.

Remittances also provide the capital for thousands of small retail and service businesses set up in Albanian towns over the past six months.

In addition, the Group of 24 wealthy nations provided another Ecu850m ($1bn) in aid in 1991-92, much of it contributed as emergency food supplies following a disastrous fall in agricultural output, the result of privatisation of collective farms.

With farm production forecast to rise by at least 20 per cent this year, food aid will be gradually phased out. Mr Ruli must now persuade donor countries that Albania is firmly committed to structural reforms that would justify international funding for infrastructure projects to encourage foreign investment.

The government's medium-term reform plan, to be supported with another $20m loan from the IMF, calls for reducing public spending by speeding up privatisation, confined so far to selling off about 20,000 state-owned shops, and cutting public sector jobs.

However, plans for improving the foreign investment law to provide better protection for investors and for permitting land to be sold rather than leased to foreigners, meet with fierce political opposition. A new law that provides for restitution of property to pre-communist period owners will only add to the prevailing confusion.

Despite the advantages of an undeveloped coastline, cheap labour, and easy access to European markets, Albania has so far managed to attract only $20m in foreign investment and none at all in the tourist sector.

Athens urged to attack inflation

By Kerin Hope in Athens

GREECE'S central bank yesterday urged the government to keep up its fight against inflation, despite political pressures to relax austerity ahead of next spring's election.

Mr Efthymios Christodoulou, central bank governor, said before presenting the bank's annual report that year-on-year inflation, still almost four times the European Community average, would "show a swift decline" later this year.

He said a drop in inflation, together with a fall in interest rates and increased public investment, would set the stage for economic recovery, "but anti-inflationary policies must be strictly upheld even in an election year".

Inflation rose from 14.4 per cent at the end of last year to 16.4 per cent in March. The central bank said price rises for utilities and fuel, together with a jump in food prices as a result of bad weather, caused the increase.

The economy ministry hopes to bring inflation down to single digits by the end of the year. However, the government's election campaign organisers are already demanding an additional wage increase for civil servants, limited by the budget to 4 per cent in 1993, and the lifting of restrictions on public sector hiring.

The central bank's exchange rate policy also aims at trimming inflation, by slowing down the drachma's decline against the Ecu. In the first quarter of this year, the Greek currency fell by 1.4 per cent against the Ecu, compared to an overall 8.3 per cent drop during 1992.

New Community presidency to curb televised ministerial sessions

Belgium seeks orthodox EC

By Lionel Barber in Brussels

BELGIUM will restrict televised sessions of EC ministers when it starts its six-month presidency of the European Community on July 1, Mr Willie Claes, foreign minister, said yesterday.

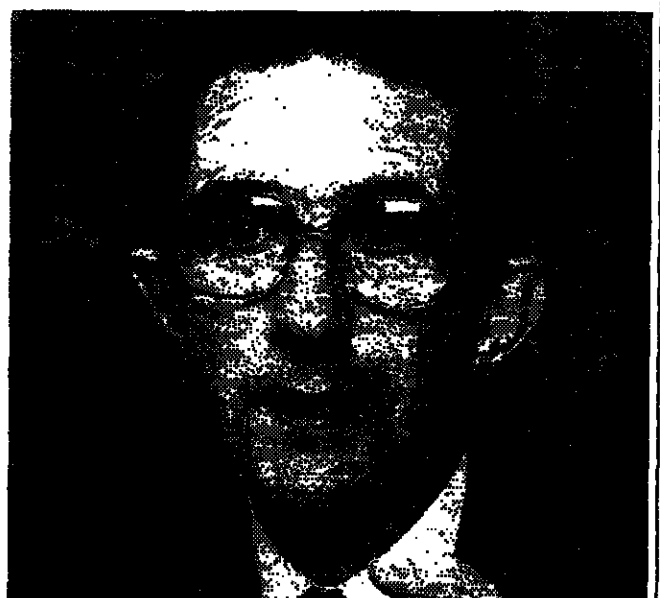
Mr Claes made clear that Belgium had no desire to emulate the Danish presidency which has so far this year won reluctant agreement to allow television cameras into eight ministerial debates.

At the Edinburgh summit last December, the Twelve decided unanimously that important policy debates and new legislative proposals should be televised. Mr Claes told a news conference in Brussels that Belgium would stick "strictly" to the Edinburgh terms.

Mr Claes also unveiled the new Belgian logo for its Presidency – a tricolour "B" inside a blue circle of 12 stars representing the 12 EC members. The early launch raised eyebrows among Brussels diplomats, though they conceded that the UK presidency was also fast off the mark last year.

Federalist-minded Belgian officials have scarcely hidden their frustration with Danish and British delays in ratifying the Maastricht treaty and are pressing for a return to orthodoxy. Mr Claes said yesterday he was unconvinced that greater transparency through five-minute ministerial soundbites was the best formula for restoring EC credibility.

Mr Claes said Belgium would present its plans for the presidency on May 21, three days after the second Danish referendum on Maastricht. He has already held talks in the Netherlands and intends to visit Paris on May 13.



Own formula: Belgian foreign minister Willie Claes

Czech-Slovak leaders to hold emergency talks

By Patrick Blum in Prague

THE Czech and Slovak prime ministers will hold an emergency meeting today following yesterday's unexpected cancellation of talks between finance ministers aimed at settling financial issues emerging from the two countries' recent division.

A spokesman for Mr Julius Toth, the Slovak finance minister, said yesterday's talks were called off as neither side was ready for further discussions.

But now Mr Vaclav Klaus and Mr Vladimir Meciar, the Czech and Slovak prime ministers, will meet in an effort to defuse the increasingly bitter dispute between the two countries over dividing the assets of the former Czechoslovak state.

Mr Klaus yesterday called for the direct talks to resolve "the current crisis between the two republics."

The dispute over who is owed what from the former Czechoslovak state has escalated since the two countries went their separate ways on January 1. Prague says it is owed CzK 24.7bn ($882m), a claim rejected by Bratislava which has made its own claim for compensation.

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French rates cut as franc strengthens

By Alice Rawsthorn in Paris and James Blitz in London

THE Bank of France yesterday took advantage of the latest easing in German monetary policy by again cutting its two key interest rates.

The French authorities cut their intervention rate, which sets the effective floor for money market rates, by 25 basis points to 8.25 per cent. They also cut the 5-10 day lending rate, the effective rate floor ceiling, by the same amount to 9.25 per cent.

The cut in French rates came in the wake of Wednesday's larger-than-expected cut in the cost of lending short term funds to German commercial banks. The Bundesbank cut its repo rate to 7.75 per cent from a previous 8.09 per cent.

Yesterday's easing in French monetary policy came amid signs of increasing confidence in the French franc among foreign exchange and money market dealers.

The currency yesterday strengthened in the wake of the rate cut, closing in London at FFr3.369 against the D-Mark from a previous close of FFr3.374. This was the first time the French currency had closed stronger than FFr3.37 to the D-Mark this year.

At the same time, French money market rates continued their recent fall. Three-month French franc interest rates yesterday closed about 20 basis points lower on the day at 7.90 per cent. This means that 3-month French franc rates are now only 18 basis points above 3 month D-Marks.

The narrowness of that spread is seen by dealers as an important sign of the French franc's intrinsic strength. At the height of the recent currency crises, French franc rates have had as much as a 4 percentage point premium over those of the D-Mark, reflecting fears that the franc might have to be devalued in the exchange rate mechanism.

However, there is no sign so far that lower rates have bolstered confidence among French business. The latest INSEE monthly survey published yesterday showed that business confidence in France had deteriorated since the start of the year, particularly in the motor and construction industries.

According to INSEE, the level of orders remains at an unusually low level and most businessmen do not expect to increase output in the short term. Hopes of recovery were damped by yesterday's announcement that unemployment rose sharply by 1.4 per cent in March, taking the jobless total to a record 3.06m, or 10.7 per cent of the workforce.

Hugh Carnegy adds from Stockholm: In the wake of the Bundesbank rate cuts, Sweden's central bank, yesterday cut its key marginal interest rate by 0.25 points to 9.25 per cent.

Ciampi changes the rules of the game

Italy's 52nd post-war government marks the switch to a new kind of politics, writes **Robert Graham**

ITALY'S new prime minister, Mr Carlo Azeglio Ciampi, has proved age is no barrier to innovation.

The 72-year-old former governor of the Bank of Italy has ventured on to ground where no government has dared tread since 1947. He has persuaded three members of Party of the Democratic Left, the heirs of the once-feared Communist party, to enter the cabinet.

This puts a formal end to the cold war divisions that have conditioned Italian politics for four decades. The era of Christian Democrat-controlled coalition governments and a communist-dominated opposition is over and this, the 52nd post-war government, is a transition towards a different political environment determined by fresh electoral laws and new alliances.

Appropriately, one of the PDS cabinet members, Mr Luigi Berlinguer, the science minister, is a cousin of Mr Enrico Berlinguer, the communist leader who championed the idea of the historic compromiso – a government of Christian Democrats and communists.

The PDS has entered the cabinet only after months of agonised internal debate. Mr Achille Occhetto, the PDS leader, has brought his party round by pointing out that Mr Ciampi is a non-partisan figure heading a government of limited duration, untainted by corruption and containing 11 first-time ministers. The three members were chosen by Mr Ciampi not by the party.

Breaking new ground: Mr Ciampi after being sworn into office yesterday by President Scalfaro (left)

Even with some PDS dissidence, the government's majority in parliament should go well beyond the slim 16-seat margin of Mr Giuliano Amato's four-party coalition. These parties remain represented in the cabinet but now, in addition to the PDS, Mr Ciampi can count on the Republicans and the Greens, who have the environment portfolio.

The government can probably rely on the support of Mr Mario Segni, the leader of the referendum movement. Although he declined to join the government, Mr Augusto Barbera, the PDS minister in the new portfolio of parliamentary affairs, was a key figure in the referendum movement, which last week triumphed with an overwhelming vote for electoral reform.

Five parties and groupings are absent from what is otherwise a government of national unity, mixing politicians with technocrats. These are the populist Lombard League, the neo-fascist MSI, the Radicals, the hardline communists, Reconstructed Communism, and The Network (La Rete), the Sicily-based clean government movement. Between them they account for just over 20 per cent of the seats in the Chamber of Deputies.

Despite much talk of Mr Ciampi having established a precedent by choosing his cabinet over the heads of the party bosses, the Christian Democrats had a considerably say. Eight of the 24 are Christian Democrat politicians or allied to the party, and they still hold the key interior ministry, retaining the outgoing minister, Mr Nicola Mancino.

In contrast the Socialists, heavily bruised by corruption scandals, have a diminished presence with only three members as ministers and one big portfolio – defence, held by Mr Fabio Fabbri. Mr Amato, the outgoing Socialist premier, declined to take the foreign affairs portfolio having announced last month he wished to step out of the political spotlight. The job has gone to Mr Beniamino Andreatta, the most distinguished economist in the Christian Democrat camp and a forceful figure, much needed in a ministry demoralised by scandal over the misuse of foreign aid funds and the patronage politics of former Socialist minister Gianni de Michelis.

Besides balancing political sensibilities, Mr Ciampi's choice of ministers reflects the two main priorities of his administration – electoral reform and economic management. Electoral reform will be handled at the parliamentary level by Mr Barbera, and at the legislative level by Mr Leopoldo Elia, the former Christian Democrat head of the constitutional court.

Economic management will enjoy the continuity of Mr Piero Barucci. He will be joined at the budget ministry by Prof Lugi Spaventa, a fellow of All Soul's Oxford who knows Mr Ciampi well and who since last year has been chief adviser at the treasury. At the finance ministry, the fifth minister in a year, is Mr Vincenzo Visco, the PDS shadow economy minister and a fiscal expert trained at Berkeley and York University.

Their job will be to prepare immediately a mini-budget to balance the L15,000bn (£6.3bn) overshoot in 1993 spending.

Another prong to economic policy will be to speed up privatisation, working in tandem with Mr Ciampi's former Bank of Italy colleague, Mr Paolo Savona, in the industry portfolio. Mr Savona, who has also been a director general of Confindustria, the industrialists association, is a firm proponent of privatisation.

Although one of the referendums approved the abolition of the ministry of agriculture, Mr Alfredo Diana, the outgoing minister, has been retained. This underlines the impossibility of abolishing the ministry without some structural replacement.

Lessons of Europe's currency turmoil

David Marsh and Peter Marsh on what can be learned from Black Wednesday and its aftermath

EUROPEAN government officials and central bankers have emerged wiser, and above all humbler, from a series of investigations into last autumn's currency crises.

Since September, sterling and the Italian lira have left the exchange rate mechanism, while the Spanish, Portuguese and Irish currencies have been devalued.

"We should have had the foresight to encapsulate all the five months of realignments into one weekend. We must never let this happen again," says Mr Wim Duisenberg, president of the Netherlands central bank.

Despite the pressures on the peseta before Spain's June 6 election, the ERM has now entered a calmer phase – thanks principally to France's success in maintaining the franc's D-Mark parity.

Yet Europe is also now much more sober in assessing the chances of progress towards the Maastricht goal of economic and monetary union.

"The events of September 1992 brought the ERM on to a more realistic basis," says a senior German central banker.

And Mr Otmar Issing, the Bundesbank's directorate member responsible for economics, believes economic divergences within the EC have made it "hardly conceivable" that Emu could take place by 1997, the earliest date stated in the Maastricht treaty.

A landmark in the post mortem comes today when monetary experts from the G10 largest industrial countries hand to finance ministers in Washington a report into the crisis. The report concludes – as did two separate inquiries by the EC – that no significant ERM reforms are needed.

Underlining the general mood, Mr Alfons Verplaetse, governor of the Belgian National Bank, says: "We can stick with the existing rules."

The report shows why central banks last autumn were unable to withstand large currency shifts set off by investors' belief that ERM parities had become unrealistic.

Huge amounts are traded on the $880bn (£507bn) a day international foreign exchange market. One central banker says an estimated $200bn to $300bn in international investments last autumn were held in higher-yielding weaker currencies which came under attack. This led to "gigantic shifts" as the likelihood of ERM devaluations grew, he says.

- **We can stick with the ERM rules** - Belgian National Bank governor
- **We must never let this happen again** - Dutch central bank president
- **The mistakes could be repeated** - former Dutch finance ministry official
- **What is unstable is the economic conditions** – Bank of Spain governor
- **Germany acted as if it was still a political dwarf** - Bank of Italy official
- **Maastricht's no-realignment rule is dangerous** - Italian budget minister

The report's analysis of the volume of funds on the move provides one reason for Bundesbank calls for curbs on obligatory ERM intervention to support weak ERM currencies.

The report does not, however, go into detail into a series of additional problems in running the ERM which contributed to last autumn's upsets.

Among the factors behind the upheavals, the Bundesbank's high interest rate policies have attracted much blame. One outspoken critic is Mr Luis Angel Rojo, Bank of Spain governor. He says: "What is unstable is not the system itself but the economic conditions surrounding the system, as shown by the conjunction of high German interest rates and recessionary conditions in much of Europe."

In a bid to deflect such charges, the Bundesbank has been pointing towards other ERM countries' failure to make timely ERM currency adjustments before last September. Lack of realignments after January 1987, it says, led to currency rates becoming out of line with realities – building up pressures which overwhelmed the system.

The misunderstandings between ERM members in September 1992 have already been well documented. What has not, however, come to the surface is that the Bundesbank tried, in a series of confidential discussions in spring 1990, to launch a broad ERM realignment – but received a rebuff.

High level talks were held with the Bank of Italy as well as with the French and Netherlands authorities. The Bundesbank again made informal soundings about a realignment in 1991, although it never sought a formal application to change parities.

The Bundesbank's lack of persistence partly reflected the D-Mark's sporadic weakness in 1990 and 1991. But it also highlighted the German authorities' desire to avoid a confrontation with France, which opposed a franc devaluation.

One Bank of Italy official comments that Germany acted as if it was still "a political dwarf." He adds: "If France says 'No' [to a realignment], there is no way that the Germans are going to make their voice heard."

In exploring the lessons of last September's unrest, some officials' attention has turned to Article 109j in the Maastricht treaty. As a precondition for membership of Emu, this lays down that ERM members should keep their parities unchanged for two years before irrevocable fixing of exchange rates.

The "two-year rule" would not apply until 1995 – two years ahead of the earliest date for Emu of January 1997. But Italy, in particular, blames the rule for creating an extra hurdle hindering countries from making timely adjustments.

Prof Luigi Spaventa, a former adviser to the Italian treasury, who was named on Wednesday as budget minister in the new interim Rome government, says the "no-realignment" rule is "dangerous."

Mr Cees Maas, former treasurer-general at the Netherlands finance ministry, who played an important role in the negotiation of the Maastricht treaty, says now he would prefer not to have the non-realignment rule. Mr Maas, now a board member of the ING financial services group, says he did not realise the clause would lead to undue "politicisation" of the question of realignments.

Mr Maas' views are not shared by Dutch finance ministry officials in charge of international monetary affairs. But his point is nonetheless a telling one. Unless the "no realignment" rule is changed, Mr Maas says, the ERM is again likely to enter a phase of excessive rigidity from 1995 onwards – and the mistakes of the last few years could be repeated.

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Boycott threat follows Yemen poll

By Mark Nicholson and Eric Watkins in Sanaa

ONE OF the most successful parties in early returns for Yemen's elections yesterday accused the two government parties of "interfering grossly and flagrantly" to influence voters and threatened to boycott parliament if such "abuses" continued.

The statement from the Islah party, an alliance of Islamists and one of the country's biggest tribal groups, came as international observers monitoring unified Yemen's first election praised the enthusiasm and commitment of officials and voters, but said they had witnessed "numerous" and "significant" irregularities.

Nevertheless, the 20-strong group of observers, led by the International Republican Institute, an affiliate of the US Republican party, said problems during Tuesday's vote "do not seem to have significantly affected" the outcome.

Islah has already secured 40 seats with two thirds of the 301 electoral districts declared, making it by far the most successful non-government party. But it accused the General People's Congress (GPC) and Yemen Socialist party (YSP), which together form the present ruling coalition, of using security forces to "terrorise" and "threaten" its candidates.

"If these abuses continue, we will not participate in the forthcoming parliament," said Mr Abdullah al-Akwa, a member of Islah's political office.

The GPC has won 95 of the 199 early results, with the YSP winning 24. Independent candidates won 31 seats. With counting still continuing late yesterday in several far-flung districts, full results are unlikely before the weekend.

Unofficial indications suggest the GPC and YSP will form a sufficient bloc in the new parliament to form a coalition government. Mr Ali Salem al-Beid, vice president and YSP secretary-general, said before the vote that "even if either party wins the majority, the circumstances of the country require the coalition" - a sentiment aired before the poll by President Ali Abdullah Saleh.

While it has been widely assumed Islah would form part of such a coalition, its attack on the two ruling parties throws considerable doubts on its desire to join the government. It also suggests that a period of fierce bargaining over an eventual cabinet will follow the final results.

In their preliminary report on the elections, the international observers criticised the requirement that illiterate voters have their ballot witnessed, which they said compromised the secrecy of the vote. They also criticised the government's control of the media during the campaign and said allegations of organised registration of voters outside their appropriate districts were "too consistent and widespread to be disregarded."

But observers were at pains to point out the ballots had been a considerable experiment. A separate report by the British Electoral Reform Society said electors "with only a few exceptions were able to express their choice of parliamentary representatives freely and without duress." The report adds that "despite individual flaws, we believe that this election was a success".

WHO vote unlikely to calm criticism

Frances Williams reports on unhappiness with the director-general of a UN agency

NEXT WEEK the 184 members of the World Health Organisation are expected to confirm by a big majority the reappointment of Dr Hiroshi Nakajima for a second five-year term as director-general of the United Nations agency.

The decision, however overwhelming, is unlikely to calm the blizzard of criticism levelled at Dr Nakajima, a Japanese pharmacologist, whose reign at the WHO since 1988 has been dogged by scandal, mounting opposition of leading western donors, and disaffection to the point of open revolt by many WHO staff.

Dr Nakajima's critics say his re-election will seriously weaken the ability of the Geneva-based agency, which has an annual budget of $850m and employs 4,700 people worldwide, to tackle global health challenges including Aids, child health and the spread of infectious disease.

They draw parallels with the UN Educational, Scientific and Cultural Organisation in the mid-1980s under Mr Amadou Mahtar M'Bow, a Senegalese, who was finally forced out after rampant waste and mismanagement had destroyed Unesco's credibility.

"It's a genuinely sad situation," says a seasoned western diplomat. "The WHO was one of the UN's best technical agencies. Now it's headed downhill."

In February, a senior Japanese staff member in the WHO's regional office in Manila, where Dr Nakajima was previously director, wrote to a top foreign ministry official in Tokyo that "another five years of Nakajima will be a nightmare for the Japanese government and a catastrophe for the WHO."

Dr Nakajima had barely arrived in Geneva before the rumblings of discontent began. Staff were upset by his autocratic management style, the appointment of Manila cronies to key positions, and the demotion or transfer of staff who had close links with his Danish predecessor, *Dr Halfdan Mahler*. US and European donors say Dr Nakajima, has failed to give the organisation vision and leadership.

WHO staff also question the role of Mr Ryoichi Sasakawa, the controversial Japanese billionaire philanthropist and rumoured *aspirant for the* Nobel Peace Prize, who is a generous contributor to WHO. Dr Yugi Kawaguchi, who acted as the WHO's linkman with Mr

Critics say his re-election will weaken the agency ability to tackle global health challenges

Sasakawa in the mid-1980s, was promoted by Dr Nakajima to the important post of director of planning, co-ordination and co-operation.

More recently, US officials have accused Japan of buying the votes of developing country members of the 31-strong executive board, which in January *voted 18 to 13 to renominate* the incumbent. The US, the EC and the Arab League backed Dr Mohammed Abdelmoumène, an Algerian neurologist, who was Dr Nakajima's deputy until suspended last year after declaring his candidacy. Dr Abdelmoumene remains on special leave with full pay.

A special audit conducted by Sir John Bourn, Britain's comptroller and auditor general, found that the value of WHO contracts to executive board members had more than doubled in the second half of 1992 compared with a year earlier, and identified five contracts involving financial irregularities.

While Dr Nakajima was not personally involved, all five *contracts were signed* by Dr Kawaguchi using Japanese funds. By far the biggest, a research contract of $150,000 given to a foundation run by the Philippines executive board member, Dr Alfredo Bengzon, was paid for by the Sasakawa Health Trust Fund.

The auditor's report is due to be discussed by the World Health Assembly next week, before Dr Nakajima's re-election.

However, western diplomats do not expect this significantly to influence the vote, by secret ballot, which will reflect the views of the WHO's developing country majority.

Even without the various threats or inducements allegedly made by the Japanese government (charges which it strongly denies), many poor countries *see Japan as a* more promising potential donor, bilaterally and through the WHO, than the US or Europe which have other preoccupations and more severe budget constraints.

Dr Nakajima has made some attempt to defuse the row before the ballot. Last week it was disclosed that Dr Kawaguchi would be shunted aside to handle "inter-agency affairs." Dr Nakajima plans to announce next week a more radical reorganisation which will include creation of two new divisions for nutrition and vaccines and effectively curb the powers of two Manila buddies, Dr Edward Uhde, the budget and finance director, and Dr H S Dhillan, director of health education, who were implicitly criticised by the special audit.

It is not clear *to what extent* these and other measures will satisfy the principal donors, though western diplomats say there is no present intention to cut contributions to WHO programmes.

However, there are already discussions afoot on giving other UN organisations a bigger role in the fight against Aids and vaccination of children. While not directly connected with dissatisfaction over Dr Nakajima's leadership, such moves threaten to undermine further the WHO's hitherto unquestioned leadership in the global battle for health.

De Klerk signals apology for apartheid

SOUTH AFRICAN President F W de Klerk, in twin gestures of conciliation, yesterday apologised for his National party's imposition of apartheid and said African National Congress leader Nelson Mandela had presidential qualities, Reuter reports from Cape Town.

Mr De Klerk said in an opening statement at a news conference unveiling the party's new colours he "deeply regretted" that apartheid had deprived blacks of their dignity and potential to develop. Pressed to say whether this amounted to an apology, which he had so far refused to give, he said: "Yes, we say we are sorry."

Mr de Klerk unveiled a new blue, white and green flag showing a yellow sun in place of the powderhorn that has been the party's symbol since it came to power in 1948.

Earlier, Mr de Klerk said in an interview with CNN television that Mr Mandela, his main political rival, had presidential qualities. "I think Mr Mandela has the typical qualifications, personal qualifications and qualities, expected of people *who fill high office. I respect* him," he said.

He said, however, that the ANC lacked the experience necessary to rule South Africa. "To me they are unacceptable because of their adherence to communism. I think they need direction," Mr de Klerk said.

Britain keeps its counsel after HK talks

By Simon Holberton in Hong Kong and Tony Walker in Beijing

BRITAIN will wait until after the third round of Anglo-Chinese talks on Hong Kong politi*cal development in three* weeks' time to make its assessment of whether negotiations are worth pursuing.

The second round of talks in Beijing yesterday failed to produce any proposals from China about the colony's 1994 and 1995 electoral arrangements.

Britain had hoped that Beijing would have moved on from talking about "principles" to the substance of the negotiation.

Mr Chris Patten, Hong Kong's governor, last October *put forward a seven-point plan* for broadening democratic participation in the colony's future elections.

China condemned the governor for deviating from past agreements and understandings and refused to talk to the UK for six months.

It was understood last night *that in the second round of* talks, which started on Wednesday and finished yesterday, the Chinese side was still talking about "principles" as they had done in talks a week ago.

British officials believe after the third round, which will be held on May 21-23, they will be in a better position to assess whether China is sincere in its desire to reach agreement, or if it is just simply filibustering.

In the event of the latter, they believe that they have the necessary *time to present* Mr Patten's proposals to the Legislative Council, the colony's law-making body, and have the requisite laws on the *statute books by the end of* July.

Some observers suspect that Beijing is using the Sino-British talks to slow *moves towards* arrangements for elections in 1994 and 1995.

They also believe that China may seek to use the Beijing discussions to marginalise Mr Patten.

The joint statement gave no indication of progress or otherwise in discussions conducted in a secluded diplomatic compound in the western suburbs of the Chinese capital.

Sir Robin McLaren, Britain's ambassador to Beijing and head of its negotiating team, said he hoped the talks *would help to* "restore co-operation" between the two sides.

These remarks mirrored those of his counterpart, vice foreign minister Mr Jiang Enzhu who said the talks were aimed at restoring good working relations and smoothing Hong Kong's transition to Chinese sovereignty in 1997.

Mr Patten leaves for the US tomorrow where he is expected to see President Bill Clinton and senior administration and congressional figures.

He will press the case for the unconditional renewal of China's Most Favoured Nation trading status, point out that withdrawal would lop up to 3 percentage points of Hong Kong's growth rate and put up to 70,000 out of work.

Mr Patten also plans to brief the administration, congress and opinion formers in the media on the thinking *behind his policy towards* Hong Kong's political development.

Chris Patten: going to meet President Clinton

Beijing to rival Tokyo steel making

CHINA is likely to outstrip Japan in steel production by the end of the decade and has the "real potential" to become a major market for western steel producers and iron ore miners, according to a study by a Sydney-based consultancy, writes Andrew Baxter.

The report by AME Mineral Economics says Chinese steel production has increased steadily since the early 1980s, reaching 78m tonnes of crude steel last year.

But production is expected to grow rapidly over the current decade, to reach between 100m and 120m tonnes per year by 2000. Planned capacity expansions at existing steel *mills already total some 16.8m* tonnes and possible greenfield developments might add a further 40m tonnes, says the report. If these ambitious targets are met, China will be rivalling the steel capacities of Japan and the US by the end of the decade.

The report notes that China's importance to world steel trade was emphasised in 1992 by heavy Chinese buying in the second half of the year.

In spite of last year's 10 per cent increase in Chinese crude steel production, even stronger domestic demand caused internal free market prices to jump by up to 80 per cent, diverting production away from the export sector.

With China's imminent entry into the Gatt, says the study, import duties should *fall, stimulating* imports into the country. Current tariff levels on imported finished steel products are more than 30 per cent.

China is now freeing internal steel prices, and the adoption of western-style market and institutional structures will help stimulate the local steel market's growth.

Increasing reliance is also being placed on China as a big new opportunity for the Australian iron ore producers, says the report.

Iron and Steel: Relying on China. Available from AME Mineral Economics, GPO Box 3602, Sydney 2001, Australia.

Unita 'downs helicopter'

Angola's Unita rebels yesterday said they had shot down a government helicopter and killed seven soldiers in the northern oil-producing enclave of Cabinda, Reuter reports from Sao Tome and Johannesburg.

Earlier, the United Nations World Food Programme (WFP) said it had suspended all relief *flights in Angola after* one of its planes was shot down this week. "We hope to resume the flights as soon as guarantees for the safety of our flights can be provided by all parties concerned," a WFP spokeswoman said in Harare.

Liberation Army dons a business suit

Simon Holberton says the PLA's corporate moves prompt western worries

IN THE early 1980s Deng Xiaoping, China's senior leader, sent shivers down Hong Kong's collective spine with his comment that Beijing would station units of the People's Liberation Army (PLA) in Hong Kong after 1997.

Four years away from Britain's handover of the colony to China, the PLA is already in the colony and in force. However, the uniform it wears is not the ill-fitting green outfit usually associated with the Chinese military, but the business suit.

*In the past week, China's military-in*dustrial complex has taken majority interests in two Hong Kong listed companies, raising concerns among military analysts and Hong Kong government officials about the intentions of the PLA in the colony.

Last Wednesday Mr Wang Jun, son of the late Wang Zhen, one of China's leading "long march" revolutionaries, was in town to tell investors and the press of his plans for Continental Mariner, an investment company.

Mr Wang is Continental's chairman, a position he holds by virtue of his chairmanship of China Poly Group Corporation, the controlling shareholder of a *syndicate which in turn controls Conti*nental.

China Poly is the vehicle used by the equipment procurement department of the PLA's general staff to sell Chinese-made arms abroad, and to acquire technology useful to China's weapons development.

The president of China Poly and deputy chairman of Continental is Maj Gen He Ping, director of the procurement department and a son-in-law of Mr Deng.

On Wednesday night this week, China Aerospace Industrial Corporation (CAIC), China's manufacturer of military and civilian rockets, *bought* 51 per cent of Conic Investment, which produces liquid crystal displays, televisions and telecommunications equipment on the mainland.

The interest was previously owned by Bank of China and China Resources, two of the mainland's leading corporate groups in Hong Kong.

Until March, CAIC was part of the aerospace ministry. At the National People's Congress in March the ministry was dissolved and its aviation and astronautics arms hived off into two separate corporations responsible to the State Council, China's highest governmental body, or cabinet.

CAIC manufacturers China's "Great Wall" rocket which is used to launch commercial satellites.

But according to military analysts in Hong Kong, CAIC is also closely connected with the PLA's 2nd Artillery which controls China's nuclear capability: it manufactures the delivery vehicle for China's intercontinental ballistic nuclear missiles.

According to Stockholm's Peace Research Institute, China sold weapons with a value of $7.8bn (£5.1bn) in the five years to the end of 1991.

Analysts in Hong Kong say that sales have fallen sharply since the Gulf war *of 1991 because of the poor performance* of Chinese military hardware, especially tanks, under Iraqi command.

As export revenues have come under pressure the PLA has had to look at more creative ways of making money. Under China's foreign investment rules a Hong Kong company, no matter what its ownership, is classed as a foreign investor.

It is able to go into partnership with its mainland parent and receive large tax breaks in addition to operating outside the rigid rules applied to Chinese state industries, including welfare subsidies and permanent employment.

Both Continental and Conic said they would focus on business on the mainland. Analysts also expect the parents of the two to inject mainland assets into the two companies in due course, a transaction which would lead to a flow of hard currency to the parent.

Although analysts see the reason for the acquisitions as primarily financial, many believe there may be security issues involved as well.

Under rules devised by Cocom, the Paris-based organisation that vets the west's sales of high technology, it is illegal to sell "dual use" technologies to China.

However, *last May the US lifted* restrictions on such exports to Hong Kong, with the exception of night vision technology, super computers and cryptography equipment.

A Hong Kong government official, noting CAIC's purchase of Conic, said: "We hope their interest is purely financial. We won't let this [acquisition] escape our attention."

As one military analyst pointed out, the PLA has acquired, through perfectly legal means, Hong Kong registered entities. They could act as conduits for technology transfer to the mainland.

"They have the right to go to Europe to buy technology," he said. "They could use these companies in an attempt to bypass Cocom rules."

Mideast water rights row

International talks on boosting Middle East water supplies stalled yesterday over a Palestinian call for a neutral mission to study water rights in Israeli-occupied territories, Reuter reports from Geneva.

But diplomats said the US was heading the search for a compromise to enable the discussions, part of the overall Arab-Israeli peace process, to wrap up with an agreed statement on meeting again.

US oilman missing

The United Nations yesterday said it had asked Iraq to help find an American oilman who went missing near the poorly demarcated frontier with Kuwait, Reuter reports from Kuwait.

UN military observers said drilling manager Mr Kenneth King Beaty, who has a heart condition and is in his 50s, went missing about 20 km inside Kuwait on Sunday.

Kiichi Miyazawa, Japan's prime minister, (centre) beams as he and officials depart for a visit to Australia and New Zealand

New PM expands cabinet

PAKISTAN'S caretaker prime minister, Mr Balkh Sher Mazari, yesterday expanded his cabinet to a record 50 members, bringing in new groups and a controversial minister from the previous sacked goverument, Reuter reports from Islamabad.

A total of 17 new ministers, 10 ministers of state and three advisers were sworn in, to add to the existing 17 ministers, two special advisers and one special assistant inducted shortly after Mr Mazari took office 11 days ago.

Most of the ministers belong either to a faction of Mr Nawaz Sharif's Pakistan Moslem League that rebelled against him before he was sacked as prime minister, or to the former opposition led by the Pakistan People's party of ex-Prime Minister Benazir Bhutto.

Among the new ministers was Mr Sardar Aseff Ahmad Ali, who escaped orders for his arrest earlier this month after he resigned as minister of state for economic affairs, accusing Mr Sharif of failing to tackle terrorism.

Pakistan seeks to refute terror label

Stefan Wagstyl reports on a thankless task for the authorities in Peshawar

MR Gulzar Khan, the home secretary of Pakistan's North West Frontier Province, which lies *on the mountainous border* with Afghanistan, is in the front-line of his country's efforts to refute international charges that Pakistan has become a hotbed of terrorism.

His province is home to thousands of veterans of the fighting in Afghanistan, many of the men possessing no skills except the ability to fire a gun.

The dusty provincial capital of Peshawar is an arms bazaar, where a pistol costs PRs1,000 (£24), a Kalashnikov PRs10,000 and a Stinger missile can be bought for about PRs50,000.

Mr Khan has the thankless job of trying to keep tabs on this flow of men and munitions.

When intelligence officers from the US and other countries call on his office and demand information about suspected terrorists, Mr Khan answers that he has little to give. "If only they could give us some specific information. But they don't. Sometimes they will not even say who they are looking for. Perhaps they don't know themselves."

Nevertheless, Mr Khan and other Pakistani officials are *hoping that they have done* enough to convince the US of their anti-terrorist credentials. Today the US is due to publish its annual report on terrorism. Washington has warned that it might brand Pakistan a terrorist nation and add its name to a list of pariah states comprising Iran, Iraq, Libya, North Korea, Sudan and Syria.

A poor country in need of foreign aid and investment, Pakistan could ill afford such a punishment. Pakistani officials are busy trying to improve their country's anti-terrorist credentials. This weekend Mr Balakh Sher Mazari, the newly-appointed prime minister, told a conference of foreign ministers from Islamic countries: "Pakistan is committed to combating international terrorism whenever and wherever it occurs."

However, Pakistan has enormous difficulties putting Mr Mazari's words into practice. The country is still struggling with the aftermath of the decade-long war in which Afghanistan's communist government backed by Soviet troops battled against guerril*las funded and* supplied principally by the US.

Washington then ignored the fact that arms were often diverted into the wrong hands. So did Saudia Arabia and other Arab countries which, as well

Pakistani officials say they've been treated unfairly

as cash, send hundreds of young volunteers to join the war.

But following the Soviet withdrawal, the US abruptly changed tack. Suddenly Pakistan was no longer a favoured ally in the global struggle against communism, but an Islamic country with too many guns and armed men for its own good, not to mention an active nuclear weapons programme. American military aid was cut off, followed by a rapid reduction in economic aid.

Pakistani officials believe they have been treated unfairly. They argue that they have been left to cope alone with the aftermath of the anti-communist war and of the continuing fighting in Afghanistan between rival guerilla groups. "We have been left to clear up the flotsam and jetsam," says *Mr Gul Haneef*, a senior foreign ministry official.

US diplomats accept the war has imposed a huge burden on Pakistan. But they argue Pakistan has done too little to prevent terrorists from exploiting the general chaos and that some Pakistani *organisations* may also have aided and abetted terrorism.

The US expressed particular concern about Arab militants who came to fight in Afghanistan. Egypt and other conservative Arab states have accused Pakistan *of harbour*ing suspected terrorists from their countries. To show good faith, Mr Khan in Peshawar has in the past month held about 160 Arabs to check their documents. Pakistan will expel about 50 because their visas have expired or are otherise invalid: others are being encouraged to leave. *But none* has been identified as a terrorist suspect, says Mr Khan.

The most extensive charges levelled against Pakistan come from India, which has much to gain from having the US label its arch-rival as a terrorist state. India has alleged that Pakistan's Inter Services Intelligence agency trains terrorists and supplies arms to insurgents in the troubled northern Indian states of Kashmir and the Punjab. Some Indian politicians have also accused Pakistan of having aided the terrorists who bombed Bombay last month.

Pakistanis are mostly horrified at the possibility that these charges may culminate in their country being labelled terrorist. They warn that such a move could undermine pro-western opinion and and reinforce the cause of Islamic militancy. As Mr Qaisar Butt, chief reporter on Peshawar's local newspaper, says: "If you want to call us terrorists, we'll start behaving like terrorists."

NEWS: INTERNATIONAL

Hussein tries to cope with Islamic surge

James Whittington assesses the king's 40 years in power

WHEN King Hussein surveys the ever-expanding white city of Amman from his hill-top palace on Sunday, he may have difficulty in recalling the small dusty outpost to the east of the Jordan River which became his capital on the May 2, 1953, the day he formally assumed constitutional powers.

Thrust into a turbulent Middle East as an 18-year-old Sandhurst graduate 40 years ago, the king is now the longest reigning monarch in the world. Having survived two Arab-Israeli wars, numerous coup and assassination attempts, international alienation over the Gulf war, and now, apparently, a cancer operation, he can afford a little self-indulgent pride as Jordanians take to the streets this weekend to celebrate his accession.

The kingdom is stable, its economy is growing under the watchful eye of the International Monetary Fund, and with the country's first multi-party elections since 1956 planned for later this year, Jordan is projecting itself as a model democracy in the region.

"The king's past 40 years have been vindicated," says Mr Mustapha Hamameneh, a local historian. "His brand of nationalism with its human rights and democracy has put the Hashemites in a position of leadership in the Arab world."

But Jordan has yet to be reconciled with Saudi Arabia and Kuwait after the king refused to join the coalition forces to oust Iraq from Kuwait in 1991. The Middle East peace talks, to which the king is so firmly committed, continue to disillusion Palestinians and Moslem fundamentalists in the country. And the king's democratic vision for the future will face its most crucial test yet at the forthcoming parliamentary elections.

Political parties, banned in Jordan since 1957, were legalised last year. A total of 16 parties has so far registered to vie for seats in the 80-member parliament elected nearly four years ago. But by far the strongest and most well-organised is the Islamic Action Front, the political wing of the Moslem Brotherhood, which aims to create an Islamic state.

Many Jordanians fear that they will achieve a landslide victory. They point out that the splintering effect of the other 15 parties, whose manifestos are largely indistinguishable, cannot possibly create an effective opposition to the Brotherhood. The Islamists command a great deal of popular support. They hold the largest bloc, of 30 seats, in the outgoing parliament and have made significant gains in local council and student elections.

They are especially effective in mobilising support from the underprivileged. Despite a real growth in gross domestic product of 11 per cent last year, a recent government survey showed that one fifth of Jordan's population of 4m fall below the poverty line.

Anxiety over an Islamist-dominated government is played down by government and palace officials. "I don't think one can say publicly that one is worried. Obviously democracy is not for the faint hearted," says Crown Prince Hassan.

But privately there is talk of changing the 1986 electoral law to a one person, one vote system which will drastically cut the number of people voting for Islamist candidates. There also remains the possibility that the elections will be postponed to allow the new non-religious parties to develop.

"If there is a breakthrough on the peace process in the next few weeks I don't think there will be elections because the government can't risk a parliament where the majority will vote against them," predicts one MP.

Although press reports have suggested that 500 Islamist candidates are to stand for election, Brotherhood officials say that rather than confront the government over the peace process they might simply retain their position as the opposition for the time being.

Such a conciliatory approach would be typical of the co-existence between the fundamentalists and government over the years. Unlike Algeria and Egypt there is little evidence of Islamic militancy in Jordan and they insist that they are 100 per cent loyal to the king. But their ultimate aim is clear. "We will influence the Islamisation of this country calmly and slowly," says Mr Abdullah al-Akayleh, a leader of the Islamic National Front.

The king established a close relationship with the Brotherhood early in his reign in order to counteract the growing threat of the leftist Nasserist and Ba'athist parties, banned in 1957 following a coup attempt. Ironically he now needs the support of such secular parties to fend off the fundamentalists' progressive bid for power. But most of all he needs the support of his people. Less than 40 per cent of the population voted in the last election in 1989 and there remains an acute sense of apathy that while the king is around everything will be all right.

The danger is that without a strong anti-Islamist secular vote the elections may be yet another crisis the king has to navigate to retain maintain the status quo.

King Hussein: elections will pose a crucial test

Iraq nerve agent evidence found

By David White, Defence Correspondent

EVIDENCE that Iraq used lethal nerve agent weapons as well as mustard gas against its own Kurdish citizens in 1988 has been found by scientists at the UK's Chemical and Biological Defence Establishment.

Soil samples from the village of Birjinni in northern Iraq have shown traces of the nerve agent sarin. Iraq is also alleged to have used nerve agents in the attack on Halabja near the Iraq-Iran border earlier in 1988, but this has not been proven.

Although nerve agents have existed since the 1930s, when sarin and other substances were developed by Nazi Germany, this is the first ever documented evidence of use.

A British official said Iraq was probably the first country to have employed nerve gas, which affects the central nervous system, causing breathing difficulties, involuntary movements and death.

Scientists of the US organisation Physicians for Human Rights collected the samples in 1992 from the craters left by one of three bomb clusters.

Dr Graham Pearson, the CBDE's director general, said one set of samples provided traces of mustard gas, which damages the skin, respiratory tract and eyes. The other set, including metal fragments, contained an acid that Dr Pearson said could only have come from sarin.

Four people are known to have died after the attack. But samples from the graves of two victims showed no traces of chemical weapons.

The attack took place in August 25, shortly after the ceasefire between Iran and Iraq. It is believed to have been the last time Iraqi forces made use of their nerve weapons.

Dr Pearson said he hoped the findings would deter states from thinking they could get away with chemical warfare without leaving evidence. They would help to underpin the Chemical Weapons Convention which, since it was opened for signature in January, has been signed by 145 countries and will come into force at the earliest in January 1995.

Iraq's stockpile of chemical arms is in the process of being destroyed under UN auspices. But a British official admitted; "You can never be absolutely certain that you have detected all the weapons."

NEWS: WORLD TRADE

Dunkel: unwilling to continue in the director-general's job after mandate expires in June

Sutherland: change of heart about standing for the post

Sutherland likely to head Gatt

Frances Williams on search for Dunkel's successor

FORMER EC competition commissioner Peter Sutherland is now the clear favourite to succeed Mr Arthur Dunkel this summer as director-general of the General Agreement on Tariffs and Trade.

Mr Sutherland, an Irishman and currently chairman of Allied Irish Banks, has apparently changed his mind about not wanting to be considered for the job, following strong pressure from Mr Jacques Delors, president of the European Commission.

Trade officials in Geneva said they thought Mr Sutherland, who has US as well as European Community support, would succeed in securing the necessary consensus of Gatt's 110 members.

However, names of three or four developing country candidates, from Latin America and south-east Asia, may also be put forward for consultation among Gatt members. This will be conducted next week by Mr Balkrishan Zutshi, India's Gatt ambassador and current chairman of the contracting parties (members).

One of those mentioned is Mr Julio Lacarte Muro, Uruguay's well-respected veteran Gatt ambassador, who helped found the Gatt in 1947.

Mr Sutherland's earlier reported rejection of the job, for family reasons, led to gloom and despondency among Gatt staff who feared a long period of uncertainty and lack of direction at this crucial stage in the round.

Mr Sutherland, regarded as an able and astute EC commissioner, is reckoned to have the two essential qualities for the job, apart from a commitment to open trade: the ability to master technical, often highly complex, trade issues, and the political authority required to deal on equal terms with government leaders.

Whoever gets the job will need both qualities in good measure. The most urgent task will be to try to conclude the long-delayed Uruguay Round of trade liberalisation talks by the end of the year. This will mean knocking powerful heads together to secure the necessary compromises, notably among the leading traders, the US, the EC and Japan.

Gatt's top post has traditionally gone to a European; Mr Dunkel is Swiss and his two predecessors were Swiss and British.

A number of developing countries, which play an increasingly active role in Gatt, would like a third world national in the job, but this is opposed by the US and may not be pressed too far.

"It would be great to have a Latin American but the main thing is to have someone with the political stature and familiarity with trade matters," said one Latin American diplomat. "Mr Sutherland is that kind of person."

Some countries would still prefer to ask Mr Dunkel to stay on until the Uruguay Round is completed. Only then will Gatt members know for sure whether they are seeking a political heavyweight to run a powerful world trade organisation, or a technocrat who will oil the wheels of the present system.

But Mr Dunkel, who was appointed in 1980, says he does not want another extension of his mandate when the first expires at the end of June. In any event, most Gatt members appear to see new blood as preferable to continuity. Among the leading traders, many of the key negotiating posts have already changed hands. The Gatt itself needs an invigorating force at the helm.

In particular, Gatt members are keen to see the important deputy posts filled. Mr Charles Carlisle, Mr Dunkel's American deputy, wants to step down this summer.

A second deputy job, traditionally held by an Indian, has been vacant for nearly two years. The Latin Americans have their eye on a proposed third deputy post, who might have responsibility for Gatt's economic analysis and research.

Final decisions on all these jobs await the naming of Mr Dunkel's successor.

Philippine financing breaks new ground

By Jose Galang in Manila

LOANS exceeding $700m (£444m) have been pledged by a group of international financial institutions to equip a 700MW coal-fired power station in the Philippines.

Hopewell Power (Philippines) Corporation, a subsidiary of Hopewell Holdings of Hong Kong, will construct the plant under a build-operate-transfer (BOT) arrangement with the government.

The $700m will be used to buy equipment, mainly from Mitsubishi of Japan and Westinghouse of the US.

Costing an estimated $933m, the plant is described as the biggest single foreign investment ever in the Philippines.

The financing deal was arranged by the International Finance Corporation, the World Bank arm concerned with private sector projects. The other main sources of finance are the Japanese and US export-import banks. It is the first time the latter have provided limited recourse co-financing without government guarantees for a large power project in the developing world.

The IFC will provide $10m in equity and lend $60m on its own account, with up to $40m more to be syndicated with commercial banks.

Financing is also being provided by Britain's Commonwealth Development Corporation and the Asian Development Bank.

The financing arrangement is expected to become a model for similar infrastructure projects elsewhere in the developing world.

"The availability of export credits without guarantees from host country governments will be critical in expanding the private sector's role in the power sector," Mr Vijay Chaudhry, IFC power division manager, said in Washington.

The loan from Japan's Exim-bank, which accounts for nearly $370m of the financing package, is also its first for a BOT project.

Hopewell Power will build the plant and operate it for 25 years, during which the state-owned National Power Corporation (Napocor) will buy the electricity it produces. The plant will then be handed over to Napocor.

The plant, located in Pagbilao town in Quezon province some 125km southeast of Manila, is scheduled for completion in 1996, to serve as a baseload plant to service consumers in Luzon, the country's main island and is part of government efforts to ease the serious power shortages that can last 8-10 daily in Manila and the rest of Luzon.

Chemical plant for Singapore

By Kieran Cooke in Singapore

US AND Taiwanese interests have combined to build a S$1.4bn (£539m) petrochemical complex in Singapore. Exxon Chemical will have a 50 per cent stake in the project, while Amoco Chemical will have 40 per cent and the China American Petrochemical company of Taiwan will hold the remaining 10 per cent.

The new complex, due for completion in 1996, will produce paraxylene, used in industries making polyester, film and packaging resins. The plant will also produce benzene, used to produce a range of raw materials that go into products such as styrene.

Gatt acts on duties row

The subsidies committee of the General Agreement on Tariffs and Trade has agreed to an EC request for conciliation in its row over anti-subsidy duties imposed by the US on some EC steel imports.

The committee has 30 days from April 28, when the decision was made, to resolve the dispute after which the EC can ask for an independent panel to rule on the issue. The EC and US have already held unsuccessful bilateral consultations over the duties.

The EC argues that the US has used a "flawed methodology" for calculating subsidies which breaches Gatt's subsidies code. This is denied by the US, which has stressed the duties remain preliminary.

Seven EC members are among 19 countries hit by US anti-dumping and anti-subsidy duties on their steel exports.

Clinton in drive to prove Nafta free trade deal is still alive

By George Graham in Washington

THE Clinton administration is making a concerted drive to prove that the North American Free Trade Agreement with Mexico and Canada is not dead.

Mr Leon Panetta, the White House budget director, threw the administration and the Democratic congressional leadership into turmoil earlier this week with the warning that Nafta simply could not pass Congress.

The loud criticisms of Mr Ross Perot, the Texas populist, were making the task much more difficult, he said.

Since then, administration officials have gone out of their way to reaffirm their commitment to the treaty.

Mr Mickey Kantor, the US trade representative, insisted that the administration intended to complete this summer the side agreements on the environment, labour standards and import surges which President Bill Clinton has asked for.

"We intend to take Nafta to the Congress and we intend to meet the January 1, 1994 deadline for the implementation of the North American Free Trade Agreement," Mr Kantor said.

Mr Lloyd Bentsen, the treasury secretary, acknowledged that winning congressional approval would be difficult, but said Nafta's passage was important for US relations with the whole of Latin America, and not just Mexico.

"It's going to be a tough time passing it. It will not be easy, but I am optimistic that we will get there, and this year," he said.

Congressional leaders acknowledge that Mr Panetta's vote count is correct, but say that, with the side agreements still to be negotiated, it is scarcely surprising that Nafta does not yet have the necessary support.

Foreign governments and Washington trade analysts have at times been perplexed over who in fact controls US trade policy, and there have been reports of rifts between Mr Bentsen, with a broadly free trade approach, and Mr Kantor, whose style has been more confrontational.

Mr Bentsen, however, insisted that trade policy was Mr Kantor's responsibility.

Mexican trade minister Jaime Serra Puche said this week it was "highly probable" that Nafta would go into effect on January 1, 1994 as scheduled despite rising criticism in the US, Reuter reports from Mexico City.

He also said that discussions on parallel accords to the still unratified trade pact are going well and the negotiators should have "important bases" for preparing a final text of the agreement These are aimed at strengthening Nafta's environmental and labour provisions.

The trade agreement would phase out most trade barriers between the US, Canada and Mexico.

Mr Serra warned that opposition to Nafta should be expected to grow as it gets nearer to becoming reality. The pact was signed last year but still has to be approved by the legislatures of the three countries.

Indian-Israeli trade grows in new climate

By R.C. Murthy in Bombay

A HIGH-LEVEL Israeli business delegation on a visit to Bombay and New Delhi has identified half a dozen possible joint ventures in India with Israeli technology and, probably, equity.

Business relations between the two countries have blossomed since the opening of full diplomatic relations last year after four decades of cold, if not hostile, relations.

Mr Itzak Gerberg, Israeli consul-general in Bombay, expects two-way trade to double to $500m (£317m) this year.

The two countries see joint production openings in textiles, clothes and chemicals for export from Israel to Europe and the US duty-free and quota-free. Israel has agreements with the US and EC to allow free access for goods with a minimum 35 per cent Israeli content (Indian content could make up the rest). A similar agreement was reached with the European Free Trade Association last year.

Israel considers this a way to boost its exports, worth $13.2bn last year.

Israel companies also plan to collaborate with their Indian counterparts in bidding for computer software contracts.

UK machine tool maker wins £½m China order

By Andrew Baxter

THE British machine tool company FMT has won a £500,000 order from China 18 months after losing a much bigger one because of changes in the UK's Aid and Trade Provision (ATP).

The Brighton-based company will supply its latest horizontal spindle machining centre to Linyi, a manufacturer of heavy earthmoving equipment based in Shandong province.

The deal is a consolation for Mr Mike Bright, FMT's chairman, following the loss of a £3.5m contract with Linyi.

In a series of exchanges in 1991 with the department of trade and industry, Mr Bright had protested about ATP funds being disallowed for the contract. It fell foul of the department's decision to concentrate scarce ATP resources on basic infrastructural projects in developing countries rather than those designed to increase manufacturing capacity.

An Austrian company eventually won that contract.

The latest order is self-financed by Linyi, said Mr Bright, and continues FMT's long-standing co-operation with China, one of the few machine tool markets to grow strongly last year.

Mr Bright, known for his robust views, said he was "extremely concerned" by the level of funding being made available to German machine tool makers for contracts in China, to compensate them for the domestic recession.

FMT's contract comes as Birmingham-based Cincinnati Milacron announced a £3m co-production and technology transfer deal with the China National Machining Import and Export Corporation and the Beijing Machinery & Electricity Institute. It involves the Sabre 750 machining centre, which the US-owned company developed and produces in Britain.

Cincinnati will be supplying a complete model and a number of kits and will transfer manufacturing technology for the Sabre 750 and a larger Sabre machine. The company said the deal was a significant step in its far eastern marketing activity. It hopes for further agreements as other Sabre models are produced.

Brazil bank in revolt over rate cut

By Christina Lamb in Brasilia

BRAZIL'S President Itamar Franco is facing a central bank rebellion over his plan to reduce interest rates, the main feature of his economic package announced last weekend.

Mr Paulo Cesar Ximenes, the bank's governor, is said by associates to be considering resigning in protest at Mr Franco's announcement, made with no prior consultation, of an interest rate cut to stimulate growth.

Cancelling a planned visit to Washington where he was due to participate in negotiations with the International Monetary Fund, Mr Ximenes and his team have spent all week fending off presidential pressure for a cut in interest rates, up till now the government's principal weapon against inflation.

Central bank officials argue that real interest rates have already fallen from last year's average 35 per cent to 27 per cent this year.

Mr Francisco Amadeu, director of monetary policy, insists that rates must remain positive.

However, Mr Franco has sought to cast the financial sector as the main villains in the fight against inflation and is accusing the central bank of collaborating with the traders.

The uncertainty caused by the conflicting statements emerging from different parts of the government is provoking enormous volatility on financial markets, with interest rates fluctuating wildly and a flight to gold and dollars.

Through the Brazilian press Mr Franco yesterday issued a stern warning to the central bank board to co-operate.

"A high interest rate policy will not survive in my government," the Jornal do Brasil reported him as saying, adding that he said he would dismiss the directors unless they obeyed. "These people think I'm stupid but I'm watching them and I know that the rates are not coming down," he said.

Ironically on Monday Mr Franco said he favoured an independent central bank.

Collor to face corruption trial

By Christina Lamb

BRAZIL'S disgraced former President Fernando Collor is to undergo a criminal trial for corruption which could lead to eight years in prison.

The Supreme Court voted unanimously on Wednesday night to admit the charges recommended by the Attorney General against Mr Collor and eight of his associates.

Mr Collor, who was suspended from office last September and impeached in December on accusations of benefiting from a massive kickback scheme, will be the first major Brazilian politician to undergo trial for corruption.

The Supreme Court decision is regarded as an important landmark towards breaking the country's notorious reluctance to pursue high-level corruption.

But Mr Sydney Sanches, President of the Supreme Court, warned that it would be a long trial. "I think it will take more than a year because there are many accused and lots of witnesses to hear," he said.

Mr Collor will be tried for "passive" corruption. The others facing trial include Mr Paulo Cesar Farias, Mr Collor's former campaign treasurer and alleged frontman, and Mr Claudio Vieira, Mr Collor's former private secretary, both accused of passive and active corruption, and suppression of evidence.

The police chief heading investigations on the "Collorgate" case has also recommended charges against Ms Zelia Cardoso de Mello, the first economy minister of the Collor government.

The main evidence in the case consists of the so-called corruptogram files stored in Mr Farias's computer, now in police custody. These contain detailed lists of kickbacks for government contracts.

Argentina 'richest in Latin America'

By John Barham in Buenos Aires

ARGENTINA is the wealthiest country in Latin America, with per capita income of $6,867 (£4,352), according to the latest figures from the central bank. Gross domestic product in 1992 rose 8.7 per cent in real terms to $226.64bn.

The figures confirm Argentina's strong growth record since it adopted strict stabilisation policies in 1991. The economy has grown 18.4 per cent in the last two years, with a further 3-5 per cent increase in output forecast for this year.

The data was produced according to new statistical methods which re-estimate the economy's structure for the first time since 1970. The figures also include a partial estimate of the informal, or black, economy.

The GDP figures are further boosted by a government crackdown on tax evasion, which has forced large parts of the informal economy into the open.

The new statistics show that previous estimates of Argentina's GDP were grossly underestimated. In 1989, when hyper-inflation depressed the value of Argentina's currency, the World Bank said Argentina's GNP was equivalent to only $53bn, recovering to $129.6bn in 1991. However, the new data is distorted by a heavily over-valued currency.

Argentina remains Latin America's third largest economy, although the difference with its giant neighbour Brazil has narrowed considerably. According to the World Bank, Brazil's 1991 GNP was equivalent to $404bn and Mexico's $275bn.

World Bank president Lewis Preston (left) makes a point to IMF chief Michel Camdessus at a meeting of the Fund's ministerial group yesterday

Tension over currency, soothed for now, is likely to resurface in the future

Yen dispute gone but not forgotten

By Michael Prowse, George Graham and Charles Leadbeater

BY condemning in forthright terms "attempts to artificially influence or manipulate exchange rates" and by sanctioning intervention by the Federal Reserve to stem the dollar's slide against the yen, Mr Lloyd Bentsen, the US treasury secretary, managed to reduce tension between the US and Japan just in time for yesterday's Group of Seven meeting in Washington.

It was a typically adroit gesture from a politician with long experience of deal-making on Capitol Hill.

Yet the dispute between Tokyo and Washington over the appropriate value of the yen cannot now be dismissed as ancient history.

In coming years the Clinton administration is likely again to find itself unhappy with the existing structure of exchange rates. The question is whether its tactics will be any different in future disputes.

Mr Bentsen came into office promising to revive the G7 consultative process. He said economic co-operation would become a two-way street, with the US listening and responding to the views of other countries rather than publicly bullying them, as had allegedly been the case in the past. He also promised to put an emphasis on discreet private communications.

Recent US policy towards Japan hardly conforms to these ideals. "I'd like to see a stronger yen," Mr Bentsen said on February 19 at the National Press Club in Washington. The dollar immediately dived, falling to its then lowest level in four decades of Y118.20.

On April 16, following a sticky session with Mr Kiichi Miyazawa, Japan's prime minister, President Bill Clinton was asked how the US $49bn (£31bn) trade deficit with Japan could be reduced. His answer was "number one, the appreciation of the Japanese yen." The dollar then plummeted to Y112.15, another low.

The remarks on exchange rates were replies to reporters' questions, not formal policy declarations. Yet both Mr Bentsen and Mr Clinton are fully aware of the extreme sensitivity of foreign exchange markets to public remarks by senior politicians.

Mr Larry Summers, the treasury under-secretary for international affairs, said this week that Mr Clinton's remark was "descriptive not prescriptive." Even if this were true, it is too fine a distinction for markets to appreciate.

If the remarks by Mr Bentsen and Mr Clinton were genuine slips of the tongue they could easily have been corrected later by a categorical official statement to the effect that the US did not want to see any further appreciation of the yen. No such strong statement was forthcoming.

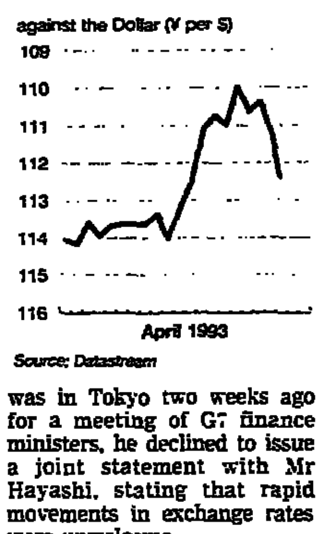
Moreover, when Mr Bentsen was in Tokyo two weeks ago for a meeting of G7 finance ministers, he declined to issue a joint statement with Mr Hayashi, stating that rapid movements in exchange rates were unwelcome.

Undeterred, Japanese finance ministry officials briefed reporters that, during the bilateral meeting, Mr Bentsen had agreed with the Japanese line that exchange rates should reflect economic fundamentals.

The US treasury was so irritated it called for a public retraction, even though this week Mr Bentsen echoed Mr Hayashi's line.

It is hard not to conclude that, at the beginning of the year, Mr Bentsen believed the yen was too weak, that he decided to encourage a substantial appreciation and that he felt the appreciation had gone far enough only when the dollar dived below Y110 in recent days.

Yen



Source: Datastream

Indeed, in a briefing with reporters this Wednesday an unrepentant Mr Bentsen came close to admitting that he had deliberately talked the yen up. Referring to his February remarks at the National Press Club, he smiled and said: "It looks like those remarks turned out to be very timely."

The US treasury claims that the sharp appreciation of the yen is a market reaction to changing economic fundamentals. The argument is that the big fiscal stimulus package recently unveiled in Tokyo will boost the Japanese growth rate substantially, putting upward pressure on the currency. Some impact is likely although a fiscal stimulus usually influences exchange rates mainly through the expectation of higher interest rates, which are not presently expected.

A stronger yen offers mixed blessings for the Japanese. In the short run it will hurt export industries such as electronics and cars which already face overcapacity.

But that could be offset by the help it will give to Japanese banks. Their weakened balance sheets have raised doubts about their ability to finance recovery through higher lending. A stronger yen increases the value of their Japanese capital relative to their international borrowing and so should create more room for higher lending in Japan.

In private Japanese officials concede that several factors justify a stronger yen: the gap between US and Japanese long-term interest rates; the size of the Japanese trade surplus, which has reached 3.3 per cent of gross national product; the need to encourage an outflow of long-term capital from Japan to offset the trade surplus; and the possibility that the US recovery may turn out to be weaker than initially thought.

In the long run, a higher yen will hasten corporate restructuring amd make manufacturing companies yet more competitive.

Does it matter, therefore, that the US treasury appears to have accelerated this process? From Japan's point of view, probably not. The US, after all, has never in the past achieved any long-run gains from dollar devaluation: look at the condition of its balance of payments compared with that of Japan.

But the way the yen appreciation was brought about arguably does matter, given Mr Bentsen's commitment to economic co-operation.

Tokyo did not agree to the scale and speed of the yen's climb; indeed officials were extremely annoyed.

As so often in the past, the US imposed its view of desirable exchange rate patterns.

In future currency disputes the US's partners will be looking for a genuine two-way street in talks with Washington.

Tenfold interest rate rise urged on Russia

By Peter Marsh in Washington

THE RUSSIAN central bank should raise interest rates tenfold to more than 1,000 per cent to reduce inflation and remove economic instability, a top official from the International Monetary Fund said yesterday.

Mr Ernesto Hernandez-Cata, deputy director of the IMF's division dealing with the former Soviet Union, said too soft a monetary policy had allowed a surge in credit in Russia. This was "clearly excessive" and underlined efforts to transform the country into a market economy.

Mr Hernandez-Cata's strong words underline concern by many western observers that Russia should be stepping up its own efforts towards economic reform as a condition for receiving large financial assistance from the industrial world.

He said there was a clear need to increase Russian interest rates, now at about 100 per cent, to more than the annual rate of inflation, now running above 1,000 per cent.

Such high rates of interest would "hopefully" be needed only for a short time to check over-loose monetary conditions, Mr Hernandez-Cata said.

He said that the surge in borrowing – much of which has gone to struggling industrial enterprises – had both led to rapidly rising prices and a depreciation of the rouble.

Because of the unstable economic conditions it had also contributed to large amounts of money being transferred out of Russia.

"We have advised the Russian central bank at all levels to make price stability its fundamental priority," said Mr Hernandez-Cata. "Industrial policy and selective resource allocation should not be the preserve of the central bank."

A problem identified by the IMF is that the Russian central bank is answerable to parliament rather than President Boris Yeltsin's government. As a result, it has frequently not acted in concert with Mr Yeltsin over plans for economic reform.

Mr Hernandez-Cata said he was encouraged by the results of the Russian referendum which he hoped would strengthen Mr Yeltsin's hand in pushing for change.

He contrasted Russia's handling of monetary policy with the actions of Estonia and Latvia which he said had both made considerable efforts to bring down inflation by tough monetary policies presided over by their central banks.

Positive thinking pervades G7 gathering

By Peter Norman, Peter Marsh and George Graham in Washington

THE Group of Seven leading industrial countries yesterday met to intensify their international economic co-operation against a background of increased optimism that the process is producing results.

As they gathered in Washington, the finance ministers and central bank governors from the US, Japan, Germany, France, Britain, Italy and Canada could look back on several months of significant policy change in their countries as well agreement on new aid for Russia.

The objective of yesterday's meeting was to review progress achieved and consider medium-term policy targets such as the reduction of large fiscal deficits in the industrial countries with the objective of fostering prolonged and stable non-inflationary growth.

In contrast to some previous G7 meetings, the talks began in harmony. In part, this reflected the determination of Mr Lloyd Bentsen, US treasury secretary, to avoid putting the main trade partners of the US under visible pressure.

The atmosphere was improved by Germany's decision this week to lower its market interest rates, a step that may ease the way to lower interest rates across Europe.

The intervention by the US Federal Reserve to curb the rapid rise of the yen on foreign exchange markets also drew the teeth from potential controversy by reducing Japanese worries about the threat to export competitiveness. Mr Bentsen indicated that he did not expect much time to be spent on exchange rate issues in the talks.

It was expected that recession in Europe's would prompt the US and other G7 countries to seek assurances from Germany that it would lower interest rates further when appropriate. "We are particularly looking at Europe where growth is dismal," Mr Bentsen said before the meeting. "We hope that overall the rates in Europe can be reduced some more."

However, Mr Helmut Schlesinger, the Bundesbank president, made clear yesterday that Germany still faced difficulties in getting inflation down so there could be no question of aggressive rate cutting by the bank.

On the other hand, ministers referred to recent Bundesbank rate reductions, the US programme to shrink its budget deficit and Japan's package of fiscal measures to boost its economy as evidence of how the G7 countries are now able to take each others' interests into account when formulating policies.

"In a way it looks like a revitalisation of the G7," Mr Bentsen said.

He said the US was now "in a position to restore some leadership" as a result of its efforts to tackle its persistent budget deficit – a problem which has made it the butt of criticism from other G7 countries in the past.

All participants appeared determined to develop the G7 as a forum for policy co-ordination. Mr Theo Waigel, the German finance minister, said he would propose that the countries come together more frequently when necessary, perhaps for shorter meetings and that they should expend less energy than in the past on drafting communiques.

This pattern is already being established. A G7 meeting in February ended without a formal statement, while yesterday's meeting was scheduled to run for half a day only.

Clinton celebrates 100th day with his new star

By Jurek Martin in Washington

PRESIDENT Bill Clinton chose to spend a good public part of his 100th day in office with the new star of his administration, Ms Janet Reno, the attorney general.

Washington was still buzzing yesterday over her defence to Congress of her handling of the Waco siege, especially her breath-taking confrontation with Congressman John Conyers of Michigan. Mr Clinton's trip to the justice department, to attend the announcement of new nominations to senior positions and for some remarks, was only arranged late on Wednesday.

The 100 days was predictably marked by many polls and much media and political commentary seeking to assess Mr Clinton's record in office and prospects for the future.

Unsurprisingly the results were mixed. The Washington Post/ABC poll found approval for the way the president was handling his job by a 59-39 per cent margin, higher than most other surveys but down from the 63-30 peak of late February.

But only 37 per cent thought he had accomplished much in his first 100 days. Of those who were disappointed, 40 per cent blamed Mr Clinton, 40 per cent the Republican party and 17 per cent both equally.

Another national survey, conducted jointly by a prominent Democratic and Republican pollsters, gave him a 55 per cent approval rating, which it said was the lowest at this point of any presidency in the last 40 years. Some 57 per cent thought he had lost his focus as president and less than half (49 per cent) backed his economic plans, down from 58 per cent in February.

But this poll also found much greater public confidence in Mr Clinton's ability to effect the right sort of change in the country than in the Republican alternative. On healthcare alone, 72 per cent believed he could come up with necessary reforms, versus a mere 19 per cent support for what the Republicans might propose.

On the comment side, a Los Angeles Times editorial, while dismissing 100 days as "an artificial benchmark," said the president was "terrific in two areas but weak in a third. He is great with an audience and at policy analysis. Less impressive is his ability to get things done."

The Wall Street Journal, not a fan of Mr Clinton, said his first 100 days showed him to be "a president of the congressional agenda and special interests." The New York Times leader column, frequently critical, spoke of "large accomplishments" (the budget bill) and "many missteps" (the stimulus package). It urged Mr Clinton "not to confuse motion with progress."

Presidential test in Texas run-off

Senate race has been dirty, mean and a touch larger than life

By Jurek Martin in Washington

ONLY one thing is reasonably certain about the special election tomorrow to fill the Senate seat from Texas vacated by Mr Lloyd Bentsen when he became treasury secretary: nobody will get the necessary 50 per cent and there will be a run-off between the top two, probably in early June.

This will not stop much sonorous comment about how the election is the first statewide referendum on the Clinton presidency, on its 101st day. But the validity of much of this may be questioned for the very simple reason that this is a Texas shoot-out in which, true to tradition, everybody, regardless of race, creed and party, is running against Washington and its president.

The national implications will not be apparent until the predicted run-off, when it would be bad news for Mr Clinton if the Bentsen seat went Republican. He has had trouble enough with 43 Republicans in the Senate and hardly needs another.

But the Saturday race has been pure Texas politics – which means that it has been unscrupulous, dirty, mean and a touch larger than life.

The frontrunner is Mr Bob Krueger, the former Democratic congressman and current interim Senator, appointed by Governor Anne Richards to fill Mr Bentsen's shoes after she had taken herself out of consideration. In Washington, but sensing the Texas wind, Mr Krueger has frequently voted reflexively against his president.

Running second to fourth in most local polls are three Republicans, Ms Kay Bailey Hutchison, the state treasurer, and two congressmen, Mr Jack Fields and Mr Joe Barton.

Ms Hutchison, a moderate unpopular with the local pro-life movement because of her tolerance for abortion, was considered the strongest candidate until former Governor John Connally, who is advising Mr Fields, spread the nasty little story that she had slapped around his own daughter, then an employee of Ms Hutchison.

This is par for the Texas political course (Lyndon Johnson routinely spread dirty rumours.)

A reflection of Texas politics rather than a true test of Mr Clinton

But Ms Hutchison is also on the receiving end of some rude out-of-state comment.

The National Review, Mr William F Buckley's conservative magazine, dismissed her as "George Bush in drag" and urged its readers to support Mr Fields. Still, Senator Phil Gramm, the other Senator and a Republican, is in her corner.

Mr Barton is a ferocious conservative, highly regarded by the National Rifle Association, Mr Fields a little less so and more of the populist. It is an open question to what extent, in the event of a run-off, the two Republican losers could back the winner.

Also on the ballot is Mr Richard Fisher, nominally a Democrat but in reality a Perotista. He advised, to the extent anybody did, Texas billionaire Mr Ross Perot in his presidential run last year and is blatantly mimicking that campaign, including spending an estimated $4m of his own money to finance it. However, all local polls show him running fifth.

Mr Krueger is expected to finish first on Saturday mostly because of the Republican split. But local surveys also show him quite vulnerable in a run-off. This contest would feature some seriously dirty pool.

Peruvian banks bombed

SUSPECTED Maoist guerrillas dynamited seven banks in the Peruvian capital, then exploded bombs at the education ministry and a technological institute overnight, police said yesterday, Reuter reports from Lima.

Three pedestrians were wounded in one of the attacks. Guerrillas, presumed from the Shining Path group, later exploded car bombs at the ministry in the San Borja district and the San Ignacio de Loyola Institute in Miraflores, damaging both buildings and surrounding homes, police said.

Hours earlier, guerrillas exploded bombs at the seven banks around the capital, damaging doors and windows, police said.

Shining Path has waged a 13-year civil war costing more than 26,000 lives in its campaign to turn Peru into a Cambodian-style co-operative farming economy.

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Tenfold interest rate rise urged on Russia

By Peter Marsh in Washington

THE RUSSIAN central bank should raise interest rates tenfold to more than 1,000 per cent to reduce inflation and remove economic instability, a top official from the International Monetary Fund said yesterday.

Mr Ernesto Hernandez-Cata, deputy director of the IMF's division dealing with the former Soviet Union, said lax monetary policy had allowed a surge in credit in Russia which was "clearly excessive" and undermined efforts to transform the country into a market economy.

Mr Hernandez-Cata's strong words underline concern by many western observers that Russia should be stepping up its own efforts towards economic reform as a condition for receiving large financial assistance from the industrialised world.

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Peruvian banks bombed

● More realistic and radical than earlier blueprint ● Weakness is lack of proposals to deal with litigation between Names and agents

Middleton starts implementation next week

By Richard Lapper

THE LEADERS of the Lloyd's of London insurance market plan implement their new business strategy urgently. They recognise that time may be running out.

Mr Peter Middleton, chief executive, said yesterday: "This is not a consultative paper, it is a plan. We will obviously listen to people's reactions but we haven't got time. We must get on and make changes."

A visibly tired Mr Middleton added: "We'll have the weekend off and we'll start implementation on Tuesday."

The urgency is appropriate. The plan, prepared at speed over the past three months, amounts to nothing less than a survival formula for a market which has suffered losses of more than £5bn in the past five years.

Its central proposals – for modernising the market and modifying the principle of unlimited liability – develop the conclusions of the task force report, published less than 18 months ago. The task force was headed by Mr David Rowland, who was then an adviser to Lloyd's and is now its chairman.

But the underlying tone is both more realistic and more radical than that of the earlier blueprint, reflecting the sharp decline in confidence among both Names – the individuals whose assets back the market – and businesses trading there in the wake of record losses in 1989 and 1990.

The market's capital base has sunk by nearly £3bn – to less than £8.5bn – in just two years. Whereas the task force report aimed for a capital base of between £13bn and £17bn by 1997, the new business plan is more modest, recognising that only a much lower level – of between £10bn and £12bn – is now possible. But even to maintain a Lloyd's of that size will require the most radical upheaval ever witnessed at the 306-year-old market.

Costs are to be cut by a third and more than 2,000 jobs shed *in the next two years as* the market seeks to improve efficiency and profitability to attract corporate investors.

The market and regulatory boards, set up last year to administer and regulate the market, will be more closely involved with the market's 200 syndicates and 100 agencies, which in practice will lose much of their independence.

The syndicates and agencies will become more akin to franchises, whose standards of performance and service will be determined centrally by Lloyd's. Syndicates will be compelled to adapt to electronic trading. Businesses that are not viable, and professionals who prove to be incompetent, *will be rooted out. Agents* will be forced to supply better quality and give up-to-the-minute data about their performance to the Lloyd's corporation much more quickly.

Mr Middleton said: "We do not think it is appropriate any longer for individual businesses at Lloyd's to only look at their own individual interests – they are deploying our brand name."

He added: "I do believe there should be a market of individual competing units but if it is left, red in tooth and claw, to do whatever it likes it can bring the whole market to the brink of destruction."

The plan recognises *that the* interplay of market forces has already caused some rationalisation. More than 150 syndicates and *dozens of agencies* have disappeared in the last two years. But it says the cost has been too high, adding: "It can never again be left to market forces, which operate too late to prevent serious loss." That statement carries revolutionary implications for a market which has been a bastion of laissez-faire economics.

Some progress appears to have been made with a set of past *problems. Lloyd's proposal* to establish a new reinsurance company marks the first serious effort to address the burden of US asbestosis and *pollution-related* liability claims. The scheme – to compel syndicates to reinsure all policies underwritten before 1985 with the new company – is hugely ambitious, however, and technically and legally complex.

The plan says: "No-one should underestimate the difficulties associated with this restructuring. The management challenge is very great and we will need to be far more effective at managing these changes than we have in the past."

The biggest weakness perceived in the plan is the lack of any concrete *proposals* for dealing with the litigation between Names and their agents which is dogging the market. More than two dozen groups of Names are seeking several billion pounds in compensation for their losses in more than two dozen actual and potential legal actions.

Last November Mr Rowland and Mr Middleton opened the prospect of a negotiated settlement, funded largely by the errors and omissions insurers (which cover the cost of legal awards for negligence) of the agents involved in the actions. *These efforts* have so far been unsuccessful. Mr Rowland *said*, however, that Lloyd's centrally might even be prepared to contribute a "modest sum" to allow a settlement and negotiations could intensify over the next few weeks.

Much will depend on their success. At best, in *Mr Rowland's* words, the continuing litigation will be *"very unattractive* and not at all helpful". At worst it could *derail the* plan.

Staffing and costs to fall steeply

THE MARKET'S costs are scheduled to fall 22 per cent from £885m in 1991 to £665m by 1995, and it is expected that 2,500 of the 12,000 currently employed in the market will lose their jobs over the next two to three years, Richard Lapper writes.

Greater efficiency will be achieved by a new central management style and tougher, more independent regulation of the market, and by action in four specific areas – improving and streamlining *business* practices; reducing agency and underwriting fees; *changing the way members'* agents operate; and cutting the corporation's central costs.

The market is to move from an environment of "consensus-based decision-making by committees to one where the central management team will take decisions after consultation, implement these decisions and be held accountable *to the market board for* results", the plan says.

Significant improvements in central management information, including looking at introducing a one-year or two-year accounting cycle – compared with the current three-year system – are to be introduced.

Lloyd's regulators will in *future work more independently* from the market. They will monitor the professionalism of underwriters and agents, and weed out incompetence. The aim is create a regulatory structure "that replicates the operation of external regulation", the plan says.

Business processes are to be streamlined, with improve*ments in the way policies are* drafted and claims handled. Senior managers will have much better information and the move to electronic trading will be speeded up, generating estimated savings of £20m.

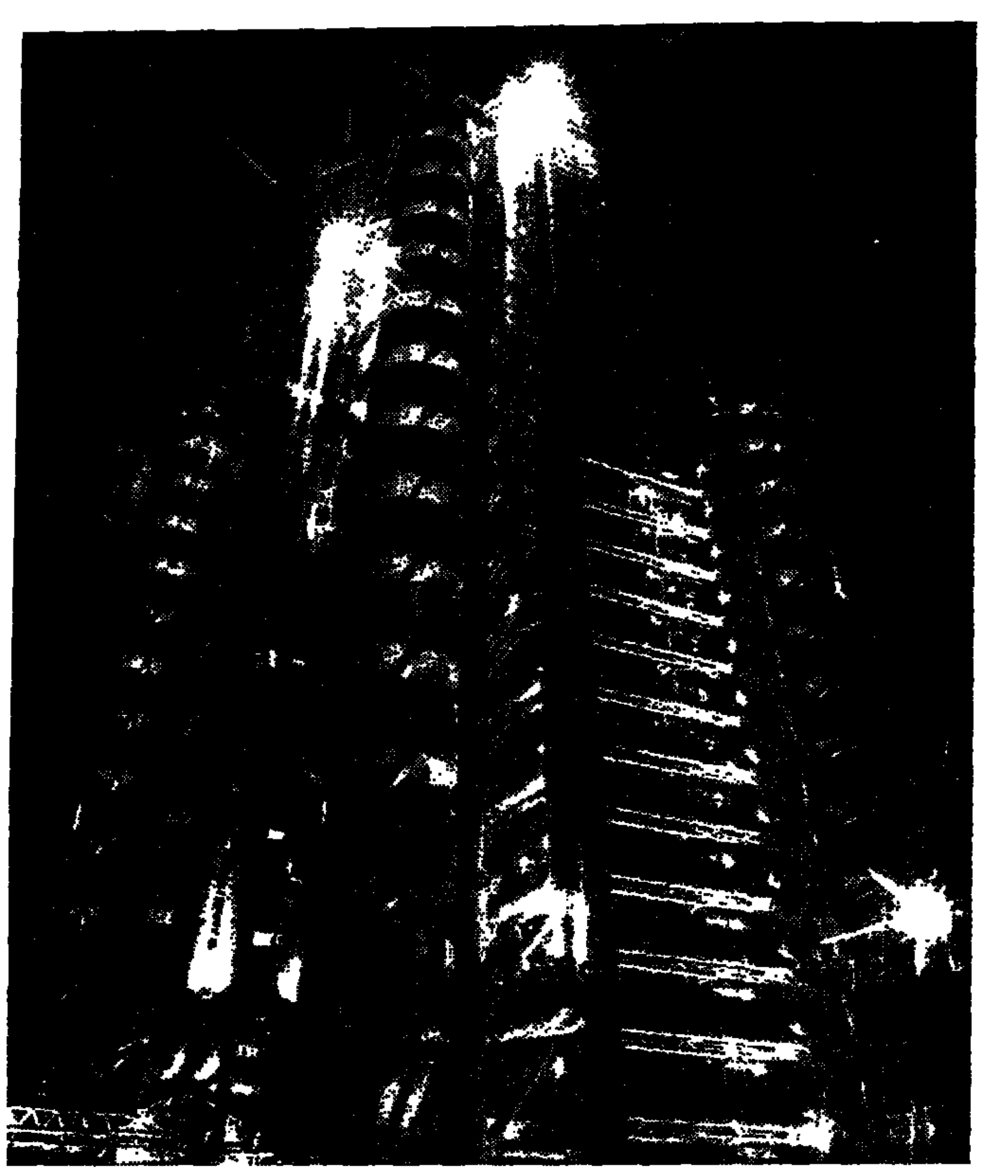
Although face-to-face trading (between underwriters and bro*kers) will be kept* "where appropriate", all underwriters will be have to do much of their business electronically by the end of 1995. All business placed at Lloyd's must be "supported by a full electronic version of the contract by 1 January 1996".

Fees *paid by Names to man*aging agents will be reduced from 0.5 per cent of stamp capacity to 0.4 per cent, saving Names £15m, and new controls on the management of run-off companies will shave a further £25m from the market's costs. Syndicates and agencies face *tough disclosure requirements*. Expenses will be rigorously monitored and a new unit set up to identify businesses that are longer economically viable.

"As 'economic viability' is a condition of registration under current regulation, agents that are no longer viable will be *closed down or encouraged to* merge with stronger groups," the plan *says*. Syndicate and agent costs have risen by a compound 20 per cent a year for the past 10 years, and there has been no slowdown in their growth since 1990, with 1991 costs up 24 per cent.

Members' agents (which handle the affairs of Names) are to stripped of many of their functions. Administrative tasks, *such as handling Names'* deposits and tax affairs, will be *transferred to a central ser*vices unit owned by Lloyd's, *yielding savings estimated at* £20m. members' agents will in *future* concentrate instead on advising Names and assessing the performance of *syndicates*.

A reduction in costs of some £37m at the corporation was announced earlier this year, with staffing cut from 2,200 to 1,600 by the end of the year.



The Lloyd's building, home of the 306-year-old market which is to undergo radical changes

Main objectives of the business plan

● Target is for global profits to reach £900m by the 1995 accounting year
● Aim is for Names to get a 33 per cent pre-tax return
● A 20 per cent pre-tax return is targeted for incorporated Names
● Cost base to be reduced by at least £190m
● Personnel to be cut from some 12,000 to 9,500
● A move to more direct leadership, intervening where necessary
● Efforts will be made to engender a sense of collective responsibility in the market
● To introduce a risk profiling system to monitor exposure of syndicates and allow capacity management
● Small audit unit to be established
● Help to facilitate central production of business information
● *To extend the requirement* for professional qualifications
● *To explore a move to one-year accounting*
● To reconfigure central support services to form closer links between marketing services and Lloyd's market associations
● A 'ring-fence' to be created to free Names from run-off years and protect new capital from old year liabilities by:
– *building information bases* on pre-1986 liabilities by 1995
– in 1995, reinsure all pre-1986 liabilities into new company
– reinsure 1986-1993 years of account into 1994 accounting year
– reinsure remaining 'open years' into CentreWrite
● Active pursuit of negotiated settlement for outstanding legal disputes
● To establish a new strategy for collection of debts by the end of June
● More proactive and more independent regulation
● Full electronic business processing by 1996 including:
– connection mandatory by end 1993
– all business supported by electronic version of insurance contract by 1996
● To establish central policy *preparation unit*
● To establish specialist claims unit for asbestos, pollution and health hazards by the end of 1993
● Current claims scheme to be replaced with a single scheme by January 1994
● The expansion of the *application of technology* to claims support
● To create a unified processing structure for London market in the long term
● To set maximum allowable managing agency fees
● To establish external reviews of projected syndicate expenses
● The full disclosure of agency staff remuneration
● The establishment of a central services unit to carry out members' agents' administrative functions by 1994
● To introduce Mapas (members' agents' pooling arrangements) and Manuac (managing agents' unitised accounting) by the 1994 accounting year
● The creation of licensed Lloyd's advisers to provide advice to incorporated capital
● *To provide well-managed* services to facilitate the run-off *of syndicates* and Names by the end of 1993
● To admit incorporated capital for 1994
● A target capacity of £10bn-£12bn by 1997
● To manage aggregate capacity:
– setting yearly limit and allowing corporate entities to 'bid' for spare capacity
– encourage quota share and consortia arrangements
– develop flexible premium income limits
● Introduce high-liquidity Names:
– liquid assets £500,000
– minimum deposit £200,000
– confirmed means of 50 per cent of overall premium limit
● Mapa-only Names to underwrite with 25 per cent deposit
● To end restriction on £3m upper premium income limit
● To include US dollar securities as acceptable Names' deposit
● To consolidate market position through simplification *of business channels to Lloyd's* and market-led initiatives
● Existing central technical services to be extended
● To broaden profile in Europe, Asia and the Pacific
● To implement plans through six programmes, each led by a senior executive, answerable to the market board.

Line will be drawn between past and future

By Richard Lapper

LLOYD'S IS to create a new reinsurance company in an ambitious effort to control a tide *of claims from old US lia*bility insurance policies.

NewCo, as it is referred to in the plan, will provide the "strongest practical ring fence" around billions of dollars in potential US asbestosis and pollution-related claims, insulating new investors from *these claims and allowing* Names trapped in "open years" to leave the market.

If successful, the new company will allow Lloyd's to "draw a line" between the market's past and its future.

The plan warns, however, that "no-one should underestimate the difficulties associated with restructuring".

Lloyd's hopes to reinsure all *insurance policies* underwritten before 1985 into the company, into which it will transfer more than £4bn of reserves from its premium trust funds (into which Lloyd's syndicates pay premiums). Lloyd's will generate capital for the vehicle by "discounting" these reserves.

At present syndicates set aside the full value of each claim in the year in which it is reported, even though it may not be paid out for many years. If these reserves were discounted to their present value – without taking into account the value of future investment income – some of these reserves would be freed to be used as *capital. The plan says* Lloyd's could supplement this by *transferring funds from the* central fund, which pays claims when Names are unable to meet their obligations.

The new company, registered *in the UK*, should start business by the end of 1995. In time *Lloyd's will consider* distributing shares in it to the Names who *contribute their* reserves to it at its formation.

Before Lloyd's transfers reserves and capital to the new company, it will need to make sure that all syndicates trading on the market have put aside reserves on the same basis – the market's syndicates currently apply different reserving *formulas*.

Lloyd's will create a central database, define a common methodology for setting aside reserves and carry out an "independent scrutiny of syndicate reserves".

Some members of syndicates which have not reserved enough could be faced with further cash calls. Lloyd's will *"set up flexible arrangements* to help them manage their payments. We will not insist on calling all of the payment in cash immediately."

The plan fixes on 1985 as a cut-off date because all material North American asbestosis and long-term pollution exposures stem from 1985 and prior years. *It was also the last* year in which liability policies were widely underwritten *on* "occurrence" wording, in which the relevant policy for a claim is the one in force when the event occurred rather than when a claim is made – as in the newer "claims made" wording. *Most* asbestosis and pollution claims were made on *these older policies*.

Syndicates would be able to close any years of account left open because of uncertainty over these claims. CentreWrite, a reinsurance company set up by the corporation in 1990, should be able to provide reinsurance for most liabilities emerging after 1985 which *have led syndicates* to leave years of account open.

Lloyd's will also strengthen Syndicate Underwriting Management, its own "run-off" company, which meets claims arising against syndicates that are no longer trading. It will license a few other run-off management companies to provide competition and share the *administrative burden*.

A full-time managing director will be appointed *to man*age the problem during the "complex transitional phase".

Scheme to woo corporate investors outlined

By Richard Lapper

LLOYD'S aims to attract corporate investors next year *but has reduced its expecta*tions for the growth of its capital base. The plan expects a capital base of between £10bn and £12bn by 1997, compared with a minimum target of £13bn proposed by the Rowland task force in January last year.

*Corporate investors – "incor*porated Names" as they are called in the business plan – will be structured as limited-liability companies dedicated to underwriting at *Lloyd's*, with minimum paid-up capital of £1.5m.

They will be required to hold capital equal to 50 per cent of their underwriting limits (the amount of premium they are able to receive). This will usually be fully paid-up, although in some cases Lloyd's will accept letters of credit. *Incorporated Names will pay 1.5 per* cent of their underwriting limit to the central *fund* – which is used when Names are unable to meet their obligations – compared with 0.6 per cent for individual Names.

Lloyd's will aim to provide incorporated Names with a pre-tax return on capital of more than 25 per cent, made up of an average underwriting profit of 10 per cent of underwriting limit – 20 per cent of paid-up capital – plus income from investments. The plan *warns: "This is a demanding* target for Lloyd's. It is likely *therefore that the admission of* incorporated Names will increase the pressure on underwriters to achieve higher returns than in the past *through a combination of bet*ter underwriting disciplines and *tighter control on costs*."

Rules governing participation of individual Names are also modified. Names with assets of least £500,000 and income above a specified level will have their "funds at *Lloyd's requirement*" cut from 30 per cent to 20 per cent of *stamp capacity*.

Members' Agents Pooling Arrangements (MAPAS) are to be introduced – a unit trust or pooling arrangement allowing investors to spread their participations across a wider *spread of syndicates*. Participating Names will also need to deposit fewer funds with Lloyd's (25 per cent of stamp capacity).

The upper limit on underwriting – presently £3m – is to be removed and for the first time Names will be able to *place deposits in US dollars*.

Lloyd's is also concerned to manage its capital base to avoid the oversupply which depressed premium rates in the late 1980s.

Incorporated Names will be required to bid for the new capacity the council makes available each year.

Lloyd's is also to introduce risk profiling, changing the deposit and solvency ratios depending on the risks of the business in which syndicates and Names specialise.

Hope of out-of-court settlement on Names' losses dashed

FOR THE third time in little over a year, hopes of an out-of-court settlement for loss-making Names have been disappointed. Richard Lapper writes.

Yesterday's business plan offers Names the prospect of continued *negotiations and the possibility of a* "modest" contribution from the central fund to any future settlement. Mr Robin Warrender, chairman of London Wall Holdings, which manages a number of syndicates, said: "There are nothing but pious words."

Mr Christopher Stockwell, chairman of the Lloyd's Names Associations Working Party, which links groups of loss-making Names, criticised the failure to achieve a settlement but was encouraged by what he described as the plan's "clear acceptance that litigation must be brought to an end". He added: "What *we have to do now is negotiate the* price."

Describing the plan as "an incredible document", Mr Stockwell said: *"Lloyd's are admitting that many of* the problems of the past are of their own making. They are saying that the spiral [the reinsurance of reinsurance] could have been prevented. They are admitting that they didn't have the management standards to regulate the market."

Mr Neil Shaw, chairman of Association of Lloyd's Members, which represents about 9,000 Names, is also concerned about the lack of a settlement, and concerned about worsened prospects for both the 1990 and 1991 underwriting years.

He said: "Further work on the litigation problem should be put in hand without delay." His association also welcomed the plan's proposals to "ring fence" past liabilities for old and open years. This would help "the recruitment of new Names by insulating them from the liabilities of the past without selling-out the Names who underwrote the old years".

Mr Tom Benyon, founder of the Society of Names, which campaigns on behalf of loss-making Names, said the plan contained "tea and sympathy" for loss-making Names "but not much more". He predicted that *threats by Names to call an extraordinary* general meeting, as a focus of *opposition, would come to nothing.* "An EGM will be quelled in its tracks."

Mr Michael Deeny, chairman of the Gooda Walker Action Group, the biggest group of litigating Lloyd's Names, said he "is deeply suspicions" of the plan. "I suspect they are trying to manoeuvre a settlement on terms much less favourable than those we could obtain in litigation."

The plan's proposals to allow many badly-hit Names to continue trading were of little help to Gooda Names, *many of whom have already* resigned.

Ms Marie-Louise Burrows, chairman of the Lime Street Action Group, which represents *about* 500 Names, facing average losses of more than £2m per head, is also critical.

Ms Burrows said: "There are wonderful words about the future but there is nothing in this plan which deals with Lloyd's. Nothing which deals with conflicts of interest."

Lime Street Names represent about 1.8 per cent of the total membership of Lloyd's between 1988 and 1991, but are faced with losses equal to between 20 per cent and 25 per cent of those suffered by the market as a whole.

Ms Burrows said: "This tidal wave of losses will have to be paid by the rest of the membership. We can't pay them."

Agents offer broad support

By Andrew Jack

MEMBERS' AGENTS reacted positively yesterday as they digested the significance of the 70-page Lloyd's business plan.

Mr George Stephens, group managing director of Hayter Brockbank, said: *"I took the* morning off to read it. I felt I ought to know the details."

He ended up extremely optimistic. *"It's the best plan* we've got at the moment and it's probably the right one," he said. "Really and truly I think Lloyd's should support it." He did admit, however: "It will chip our income a bit."

Most market participants particularly welcomed Lloyd's recommendation to ring-fence losses from the insurance market made in past years.

Several also said it was good *news for encouraging corporate* capital into the market, while at the very worst doing nothing to harm further the position of existing Names.

Mr Stephens said he had been talking to four or five parties about new capital and said he was "fairly confident" about how discussions were progressing.

"It's got to be good for Names," he said. "At the very least it is neutral and at best it means better profits and more control of the market to help avoid the catastrophes of the past."

Mr Terry Heyday, chief executive of the insurance division of Sturge, said: *"This is a* workable, bold and fundamen*tally sound blueprint for the* future. We welcome it."

He added: "Generally it is extremely good news and a very professional document, given that it was put together in a short time."

Mr Heyday, who chaired the Lloyd's working party within the review of the market on documentation and accounting, said: *"The move* to electronic trading is an opportu*nity to move forward and cut* down on the paper that bogs the market down. It will make transactions less costly to handle."

He stressed that Sturge had already reduced its fee as managing agents. "Some others will find it difficult," he said.

His criticisms were minor. *"There is still a lot of work to* be done on taxation and regu*latory issues," he added.*

Mr John Robson, managing director of Anton members' agency, said: "My reaction is very positive. I'm delighted by the general thrust of the report. My only criticisms would be on points of detail. Everything we had hoped for has been addressed."

He said his agency had never conducted tax advice and so would not be affected *by the reduction. One omis*sion from the report, which he said he welcomed, was the issue of "divorcing" members and managing agents, to prevent conflicts of interest. "Names have the choice," he said. "Where we see our role diminishing is in back-office administration. But there are clear economies of scale."

Mr Peter Aitchison, executive chairman of Cotesworth & Co, a members' agency, said: "It required something of this magnitude. I feel the declaration that we finally cast aside the way of ruling the business for 300 years was long overdue."

He said he welcomed the impact that it would have on *the professionals in the insur*ance market. "It has been very sad to see the good name of Lloyd's undermined by those who should never had been there."

He said the impact of the recommendations on managing and members' agents *would be "to squeeze over*heads. We are all going to have to *tighten our belts* hard . . . but so what? So are Names. That is the nature *of* capitalism".

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Cheaper US prices prompt questions and ill-tempered hearing in front of MPs investigating compact discs

UK fair trading regulator hints at CD inquiry

By Michael Skapinker, Leisure Industries Correspondent

THE UK music industry was taken aback yesterday by an ill-tempered House of Commons hearing into the high price of compact discs which culminated in a strong indication from Sir Bryan Carsberg, director general of fair trading, that he is close to recommending a Monopolies and Mergers Commission inquiry on the issue.

Sir Bryan told the national heritage committee that he still had an open mind on whether the UK music industry operated a complex monopoly on CDs. He added, however: "What I can say is there is enough information there to make me concerned about the situation."

Last July Sir Bryan announced that he was reopening the inquiry into CD prices only three months after Sir Gordon Borrie, his predecessor, said there were no grounds for an MMC inquiry. Yesterday Sir Bryan said the lower price of CDs in the US had persuaded him the issue needed to be examined again. He added: "One has to accept that sometimes different directors general, while applying the same policy, will reach different conclusions."

Among the matters that needed to be explored, he said, were restrictions on the import of CDs from the US and whether contracts between artists and music companies created "a limited monopoly situation". Sir Bryan said he would announce his decision in the next two to three weeks.

His evidence to the select committee was preceded by sharp and raucous exchanges between MPs and music company officials. Repeated statements by Mr Gerald Kaufman, the committee's Labour chairman, that the industry was engaged in a "rip-off" were greeted with shouts of "disgusting" by music executives in the audience.

The attack on the industry was an all-party affair, with Conservative MPs Mr Toby Jessel and Mr John Gorst adding their criticism of CD prices.

Mr Kaufman's courtesy wore thin as Mr Rupert Perry, UK chief executive of EMI Records, and Mr Maurice Oberstein, executive vice president of PolyGram and chairman of the British Phonographic Industry, said lower CD prices would jeopardise the health of the UK music industry.

Mr Kaufman regaled his audience with accounts of his experience as a veteran CD buyer in both the UK and the US, where prices were usually lower.

When Mr Oberstein, the New Yorker who has become the UK industry's most senior and colourful figure, said, "I don't think making profits is a dirty word," Mr Kaufman retorted: "I spend a disproportionate part of my parliamentary salary contributing to your profits."

As the two repeatedly interrupted one another, Mr Kaufman told Mr Oberstein it would be preferable if each spoke in turn rather than conducting a "kind of duet together."

Mr Kaufman added that speaking simultaneously they sounded "rather like one of Sondheim's more complex works". A music executive in the audience complained to a neighbour that addressing the committee was like "talking to a group of nursery school children".

Hurd backs embargo on Yugoslav arms sales

By Philip Stephens and Ivor Owen

THE government's opposition to the lifting of the embargo on arms sales to the former Yugoslavia was underlined yesterday by Mr Douglas Hurd.

In a House of Commons debate which saw the opposition Labour party call for the West to threaten air strikes against Serbian supply lines, the foreign secretary stressed there could be no military solution to the conflict.

Speaking as government officials said negotiations with Washington over the Bosnian crisis are still far from reaching a conclusion, Mr Hurd said that in the end a negotiated political settlement would provide the only durable answer.

But acknowledging the intense frustration in Washington at the refusal of the Serbs to respond to sanctions, he made it clear that the threat of air strikes remained a live option.

In a speech which sought to balance anxiety to avoid an open rift with Washington with scepticism over the effectiveness of military action, Mr Hurd said: "The only alternative to a real negotiated solution is indefinite fighting and suffering".

His remarks came as Conservative backbench MPs warned against the risk of military entanglement in the civil war. Former prime minister Sir Edward Heath's demand that Britain veto any move by Washington to bomb Serbian forces went further than most of his colleagues. But the overwhelming mood among MPs was that air strikes should be used only as a last resort.

There were repeated calls that British troops serving with the United Nations in Bosnia should be withdrawn if they risked coming under attack from Serbian forces.

Mr Hurd, echoing the sentiments expressed by Mr John Major, the prime minister, in earlier exchanges with Labour leader Mr John Smith, set out four clear priorities for policy towards Serbia:

- to provide a framework, through the Vance/Owen plan, for a political solution;
- to apply pressure to end Serbian aggression;
- to maintain the humanitarian aid effort;
- to prevent the fighting spreading to other provinces of the former Yugoslavia.

Stressing that international solidarity was "essential" if peace was to be restored Mr Hurd said that if the political and military objectives were carefully defined: "Air strikes might have a value as a threat, to deter the Bosnian Serbs from certain strategies. If defied, actual strikes could prevent them from adopting those strategies and could help to intensify the pressure already exerted by sanctions".

But the foreign secretary won support from Labour for an unequivocal rejection of any move to lift the arms embargo. That would risk spreading the conflict and "far from tilting the balance towards the Bosnian Moslems, lifting the embargo could lead to an increase in the supply of weapons to the Serbs and Croats.

Learning lessons from the bombings of Belfast

Tim Coone finds some answers for London after Bishopsgate

AFTER 23 years of the "troubles" the businessmen and women of Belfast, Ulster's principal city, are used to coping with terrorism.

In 1992 two major bombs struck Belfast's business district, ripping out the windows from a dozen office blocks, but many businesses were functioning again with hours.

For the City of London, still trying to come to terms with the massive Bishopsgate bombing, Belfast's well-developed anti-terrorist procedures may provide some valuable lessons.

At the heart of Belfast's robust defences lies an ability to cope and a systematic awareness of the dangers of terrorism reflected in everything from building design to working practices.

Mr Alasdair MacLaughlin, secretary of the Northern Ireland Banker's Association and a former head of the CBI, the employers' association, in the province, said: "There is a systemic awareness here which goes from the architects and engineers who design the buildings through to the staff and security personnel who are trained and experienced in dealing with emergencies and disruptions.

"Structurally, the more modern buildings are better able to withstand the effects of bomb damage, while the people have developed a resilience and determination to carry on regardless. This has all developed into an ability to cope".

Underpinning Belfast's stoic attitude to the bombers is a general acceptance that even with a security operation, including a very visible presence of heavily armed police and soldiers on the streets, with wide-ranging powers of detention and arrest, the bombers still find a way of getting through. (In Belfast the police and army numbers at around 4,000 - one for every 125 inhabitants - double that of London).

The emphasis is on good contingency planning, well-oiled evacuation procedures and meticulous attention to good office-keeping.

Mr Walter Jess, a senior manager at Northern Bank, said:"If a bomb goes off near one of our buildings, within minutes the contingency plan goes into effect."

One senior bank executive based in the city said: "We would always expect to be up and working the next day - with or without a desk".

One Belfast banker said that his 500 headquarters staff can be evacuated to a safe collection point in under three minutes. "Staff are not even allowed to take their coats with them. Nobody ignores a bomb warning here," he said.

Mr Ivan Carruthers, a Belfast-based partner of the UK accounting firm Ernst and Young, said a "clean-desks" policy and the backing-up and storing of computer files offsite had minimised information loss in 1992.

Bomb blast on tall buildings in confined areas can suck paper out to be scattered far and wide. Significantly, Ernst and Young say they did not lose "a single piece of paper" in the two large car bombs of 1992.

Most Belfast office buildings are built to minimise the effects of blast damage. According to Mr MacLaughlin, "there are few of the glass palaces here that you see in London".

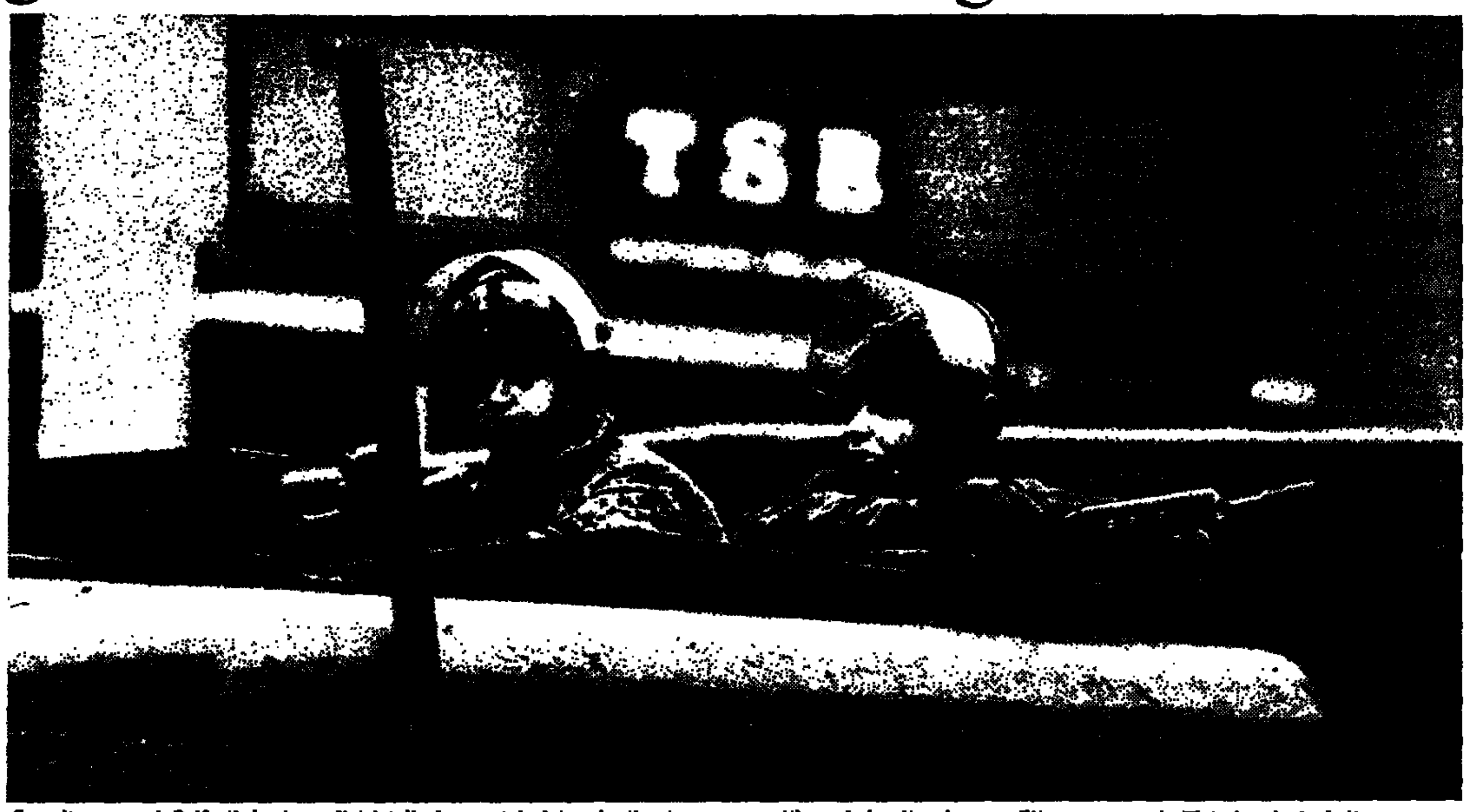
Most office block windows also have a thin plastic adhesive covering on the inside. This has the effect of making the pane fall as a sheet when the blast shatters it, rather than flying into thousands of pieces and particles of glass dust. Dust covers are also religiously placed over computers and other equipment at the end of the day.

As an additional safety precaution one bank has fitted perspex sheets inside the windows of emergency staircases to ensure that escape routes do not get littered with broken glass.

Most Belfast businessmen are ambivalent about tight security checks on vehicles entering the city. They are quick to complain when traffic disruption caused by the checkpoints disrupts their business. "It is rare that the city is paralysed," said Mr MacLaughlin.

Mr Jess summed up Belfast's experience saying "I would doubt that the additional precautions have resulted in any significant cost to doing business here. The bombs have done no more damage than say the higher levels of strikes on the mainland. There is a limit to what you can do. You must still have a congenial working environment without creating fortresses. Economic life and business has gone on regardless.

"What we cannot calculate is the cost on the province of those companies that have simply not considered coming here because of the image."



Security as usual: Belfast's business district displays a stoic determination to carry on with work despite a heavy military presence in Ulster's principal city

Future of Observer to be secured by Guardian bid

By Roland Rudd and Raymond Snoddy

THE FUTURE of The Observer, one of Britain's oldest newspapers, looked secure last night after Lonrho, the international trading conglomerate, said it had received an "acceptable" offer from The Guardian and Manchester Evening News.

The Guardian is Britain's leading quality left-of-centre daily newspaper while the Manchester Evening News is regarded as one of the country's strongest regional titles.

The offer will be put to The Observer board on Tuesday which is likely to accept the deal which is believed to be worth around £25m. It will then be put to Lonrho's board.

Newspaper Publishing, which publishes the rival Independent and its Sunday stablemate, was informed yesterday morning that its attempts to buy the newspaper had failed.

Mr Andreas Whittam Smith, chief executive, said negotiations between the two companies broke down on Wednesday "after a failure to reach agreement on outstanding issues".

A sale to The Guardian will lead to intensified competition seven days a week between it and Newspaper Publishing.

Mr Donald Trelford said he would remain editor and chief executive of The Observer until the transfer to new ownership had been completed.

Last night Mr Jonathan Fenby, deputy editor of The Guardian, was being tipped as a strong candidate to succeed Mr Trelford.

The deal represents a compromise between the two joint chief executives, Mr Dieter Bock, who was determined to sell The Observer, and Mr Tiny Rowland, who has at least twice blocked attempts to sell The Observer in the past year.

Mr Rowland, who arrived in London to complete negotiations, agreed to sell but was able to determine which of the bidders would be successful.

Lonrho's share price yesterday rose by 5½p to 93½p, reflecting the fact that the group's biggest loss making asset is to be sold. Last year The Observer made a loss of £14.9m and was scheduled to lose at least £9m this year.

Background, Page 14

Two centuries after the woodcut

THE OBSERVER, which has been published for 201 years, is the world's oldest Sunday newspaper. Born in 1791, the same year as Haitian slaves rebelled, its aim was to be "unbiased by prejudice...uninfluenced by party"

Innovations included crime stories and woodcut engravings: and the paper also went after the news. An early scoop was an interview in France with Caroline, estranged wife of George IV. The reporter rowed back across the Channel in a storm to break the story of the discarded queen.

The modern paper is mainly the creation of two dominant editors, J L Garvin (1905-42) and David Astor (1948-75). At different times during this century the paper has supported the Conservatives, Labour and Liberals. Trust ownership was followed by two major international companies – Atlantic Richfield (1977-81) and then Lonrho.

BZW Futures suspends four traders

BZW Futures, the futures broking arm of Barclays de Zoete Wedd, has suspended four of its floor traders on full pay, pending disciplinary hearings by the London International Financial Futures & Options Exchange (Liffe), Tracy Corrigan writes.

They are alleged to have violated Liffe's rules on the priority given to customer orders in the futures trading pits.

The rules are designed to prevent the practice of "front-running", which involves changing the order of trades to take advantage of price movements caused by the execution of large orders. Front-running, once a frequent problem in futures markets, has become less common in recent years due to stricter surveillance.

The traders involved are not alleged to have benefited from any of the close to 100 trades in question, conducted in the Italian bond futures pit of Liffe in May 1992. It is understood that the "profits" on the trades, amounting to less than £5,000, would have been credited to BZW. BZW futures traders cannot hold personal accounts. The trades were executed through BZW Futures' "error account", designed to handle failed trades.

Shell condemns bid to ease tax plans

By Deborah Hargreaves

SHELL, the largest oil and gas producer in the North Sea, condemned proposals yesterday for transitional relief to help those companies most affected by changes to petroleum revenue taxes (PRT).

Shell's strong defence of the proposed PRT changes and its resistance to transitional help has enraged many of the smaller North Sea explorers which are lobbying hard for some assistance. Many oil companies say exploration activity in the North Sea will be halved if the changes are adopted with the loss of up to 40,000 jobs.

Proposals in the budget would cut PRT from 75 per cent to 50 per cent and abolish tax relief on exploration and appraisal wells.

In a confidential survey of the industry by the UK Offshore Operators' Association, the trade group, companies said they would cutback their drilling programmes by sinking 206 fewer wells between now and 1997 if the PRT changes are adopted.

Shell said drilling levels had been falling because of a lack of attractive drilling prospects and this would continue even without the tax changes. The company which in a joint venture with Esso produces around 30 per cent of the UK's oil and 20 per cent of its gas, said estimates for job losses due to PRT changes were "broadly overblown."

Development costs cheaper in US, says BAA

By Andrew Taylor, Construction Correspondent

The cost of developing a large office block is almost a third higher in the UK than in the US according to a study commissioned by BAA, the operator of Britain's main airports.

BAA, spends about £250m a year on large construction projects and is proposing to build a £900m fifth terminal at London's Heathrow airport.

It said yesterday that it had asked US contractors based in North Carolina, as a test, to tender for a 200,000 sq ft office block identical to one the authority is building at Heathrow.

For the test, BAA asked US contractors to make a tender for British Airways' Centre for Combined Operations which the airports operator is constructing at Heathrow for £17.1m ($27.37m). The building is due for completion later this year.

Lynton, BAA's property subsidiary, commissioned Bovis Construction, the UK contractor and Davis Langdon & Everest quantity surveyors to tender for a similar project at an airport location in Charlotte, North Carolina.

It found that the estimated cost of offices built to US designs and specifications was £11.65m, 32 per cent cheaper than in the UK.

Construction costs, however, were marginally more expensive in the US at £17.14m if identical designs and specifications were used.

North Carolina was chosen because labour and building material costs there are similar to those in Britain.

Mr Gordon Edington Lynton's chairman and BAA's property director said the principal reasons for differences in costs were that US developers used more standard designs and common components.

Developers also spent more time preparing detailed designs and organising a job before starting building work. This saved valuable time during construction.

"US architects and engineers spend less time re-inventing solution wheels and are more ready to incorporate standard technical solutions into their designs," Mr Edington said yesterday.

Design specifications were often higher in the UK to satisfy the demands of commercial property investors rather than the building's actual users.

Greater standardisation in design meant that US contractors and material suppliers were using tried, tested and economic practices which made mistakes and delays less likely to occur.

Britain in brief

Thatcher set to give arms evidence

Baroness Thatcher has indicated to the Scott inquiry on arms sales to Iraq that she will respond positively to the call for her to give evidence.

The former prime minister's appearance could prove the most dramatic part of a series of hearings planned by Lord Justice Scott.

Much of the inquiry, set up last year, relates to the time when Baroness [formerly Mrs Margaret] Thatcher was in office. The investigation centres on Matrix Churchill, the Coventry-based machine-tool company alleged to have supplied parts for Iraq's so-called supergun.

AT&T dispute 'irrelevant'

The dispute between BT and American Telephone and Telegraph over wholesale prices for transatlantic phone calls is irrelevant to BT's application to break into the US market, the company said.

In a petition filed at the Federal Communications Commission, the US regulator, BT said there was "no basis" for AT&T's "unprecedented" proposal to link the issue to its US application. Its proposal to provide "one stop" dedicated networks for companies was targeted at "large multinationals currently dependent upon private lines", which are themselves not subject to the price rate in question.

Employment policy criticised

The British government has been criticised by the International Labour Organisation in Geneva for its lack of consultation with trade unions over employment policy.

In a report which will be submitted to the organisation's annual conference in June, the ILO Committee of Experts says it "remains deeply concerned at the serious difficulties in establishing the tripartite consultations on employment policy measures" required by the ILO convention ratified by Britain in 1966.

Braer captain took short route

Commercial pressure forced the master of the oil tanker Braer to take his ship through a channel close to the Shetland Islands, the most direct route between Norway and North America, where it ran aground in January, according to evidence to the Donaldson Inquiry in London.

Captain Phillip Grey, in a submission for the Deep Sea and North Sea Pilots' Associations, said had the Braer captain opted for the longer route through the North Sea and English Channel "he would have been safe, but probably soon out of work".

Barclays plans dial-a-bank

Barclays is to launch a pilot telephone banking service for 10,000 personal customers from July, as one of a series of projects it said would revolutionise the way it delivers services over the next decade.

THE PROPERTY MARKET

Green shoots on building sites

"There is now a widely held view that the property investment market has reached the bottom of the cycle." – Knight Frank & Rutley

"It seems that the worst is now behind us." – Jones Lang Wootton

"There is a feeling that we are at the bottom." – Investment Property Databank

Vanessa Houlder examines tentative evidence suggesting that the worst may soon be over

After numerous false dawns, claims that the property slump is approaching an end are rightly treated with scepticism. None the less, there is hope that a recovery of sorts in certain parts of the market may be within sight.

Yields have already hardened in pockets of the market in response to selective buying. In the central London office market, which has been the focus of interest from German investors, yields have dropped by as much as 1.75 per cent.

There is also anecdotal evidence of increased interest from potential occupants. Brixton Estate, which owns offices and industrial property in the home counties, this week reported a significant rise in tenant inquiries over the past month.

The case for optimism was summarised this week by the Investment Property Databank, a research group. "Yields have risen to a point where many commentators argue that returns will exceed those of other investment media [gilts or equities] over the next five years," said Mr Rupert Nabarro, director.

"When capital values cease to fall, a 9 per cent return or so will be on offer; in the medium term real rents, at historically low levels, are likely to rise," said Mr Nabarro. Values, he added, are well below replacement costs, which will force rents to recover rapidly as and when new buildings are needed.

"High income yield, low market rents and property capitalisation rates above gilts are a potent cocktail," he said.

Optimists might draw further comfort from the equity market. Property shares have outperformed the rest of the market by 27 per cent over the past seven months. Investors recognised that sterling's 15 per cent devaluation following its exit from the exchange rate mechanism last September and falling interest rates rescued the market from its hopeless condition of last summer in which companies' ability to pay dividends came under increasing pressure.

So far, so good. However, the fundamental problems facing the market remain largely unresolved. A swift turnaround in the fortunes of the industry has never been on the cards.

The end of the recession, officially declared by the government this week, does not, by itself, signal an end to the property downturn. An economic recovery is a necessary, but not sufficient, requirement for an end to the property slump.

With the exception of the retail warehouse market, rents are still falling. Last year, rents dropped by 12.2 per cent, according to IPD.

Rents will continue to fall until the glut of empty buildings have been occupied and the trend of rising unemployment is reversed.

It will also take a period of sustained economic growth before demand from investors spreads throughout the market. At present, investor demand is confined to buildings with financially secure

There is growing confidence that recovery in certain parts of the market may be within sight

tenants on long leases, which account for less than a quarter of the market. Investors will continue to play it safe until they are confident they would be able to relet a building if a tenant defaulted.

Other factors that are likely to constrain recovery are the shortage of buyers compared with the numbers of would-be sellers, and the unwillingness of banks to lend to the industry. Banks are currently burdened with a mountain of property debt.

Predicting the likely balance of buyers and sellers is complex. There is certainly no dearth of buyers. Even during the depths of recession, the market never dried up in the way it did during the property crash of the early 1970s.

Some big players have emerged. The Wellcome Trust is to invest £250m in the market over the next few years. "The market is coming to the bottom of the cycle . . . With yields of 7 to 8 per cent, property is looking very attractive. There must be opportunities to buy," says Mr Ian Macgregor, director of finance.

Moreover, overseas investors are increasingly important players, with a rapidly growing portfolio of about £9bn, according to IPD. Overseas buyers have increased their activity since sterling's departure from the ERM devaluation last September. That said, the current burst of optimism may well prove a blip in the same way as the surge of investment by Japanese and Swedish buyers in the late 1980s eventually came to nothing.

Many investors still lack the funds to make new investments. For instance, most of the big property companies and several non-property groups with large property holdings may be forced to sell property. The decline in asset values has pushed their gearing up to unacceptable levels.

This trend might be reversed if the recent outperformance of property equities allows companies to raise fresh equity. According to Andrew Walker of Erdman Lewis, chartered surveyors, if companies are able to raise £1bn this year balance sheets will have strengthened sufficiently to enable them to become net investors once more.

The institutions are also reluctant purchasers, partly because of the sharp reduction in their own cash flow and partly because of the disastrous underperformance of property over the past decade.

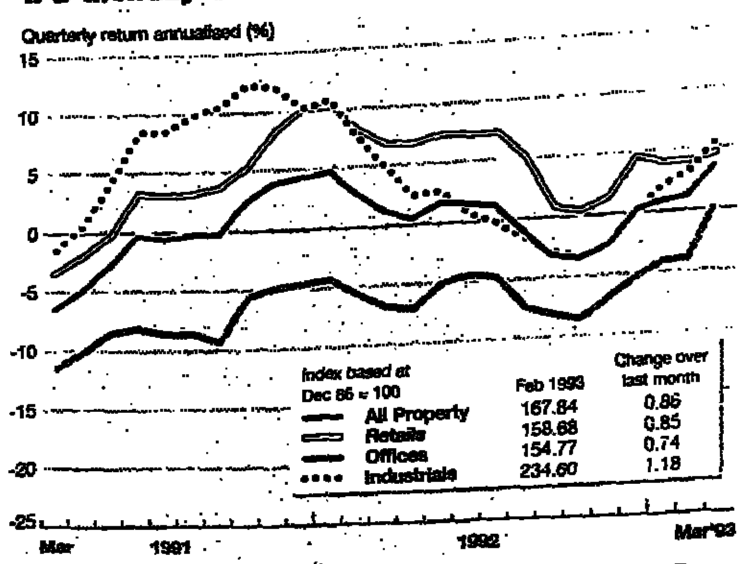
Last year net investment by pension funds and insurance companies was the lowest in 12 years at £750m – 32 per cent down on the previous year and only 40 per cent of the high point in 1989.

The uncertain state of the British economy makes for unreliable forecasts. But some indication of the prospects of different sectors is gradually emerging.

Retail property appears to be leading the pack. Industrial property rents will be depressed by the overhang of second-hand space, although strong manufacturing growth would generate a robust upturn in the mid-1990s. Prospects for the office sector are bleak, but the small supply pipeline could revive prospects in the mid-1990s.

London and the south-east will suffer disproportionately this year from weak demand and oversupply. None the less the gap between north and south is less pronounced than it was two years ago, according to IPD. The disparities in market conditions across the country are narrowing rapidly.

IPD monthly index for March



Hint of small uplift

The property investment market showed a small hint of a recovery in March, according to the Investment Property Databank, a research group.

The IPD monthly index's all properties total return of 0.5 per cent for March was the highest monthly movement for well over a year.

The overall valuation yield has remained relatively stable at 10 per cent since December. But capital and rental values continued to fall.

The office sector returned 0.5 per cent in March, the first positive performance since the corresponding month in 1990. Yields shortened by 0.06 of a point, lowering the equivalent yield to 10.4 per cent and reducing the continued decline in capital values to -0.4 per cent.

The sector registered a zero return for the quarter to March, the first non-negative quarterly performance since February 1990.

The return on industrial property improved slightly, to 0.5 per cent. The equivalent yield rose slightly in March to 11.5 per cent. The decline in rental and capital values was less severe than in February at -0.7 per cent and -0.4 per cent respectively.

The return on retail property improved marginally in March. For the quarter to March 1993, retails returned 1.2 per cent.

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MANAGEMENT

Economic forecasters can help companies predict where future profits lie, writes **Peter Marsh**

The art of guesswork

Mick Marshall, economics manager at regional electricity supplier Midlands Electricity, has just handed himself a "Golden Guru" award. Marshall's projection 18 months ago of how much electricity Midlands' customers would use in 1992-93 turned out accurate to within 1 per cent, enabling the company to gain maximum value from its power contracts.

Kevin Mahoney, managing director of double-glazing company Caradon Everest, is similarly pleased. With an economic model of the hard-hit UK home improvements industry, he correctly diagnosed the broad trends in the sector over the past year, helping him to stabilise sales through cutting prices.

At the Prudential insurance company, strategist John Cozens says his company made a "very good" return last year on its £57bn asset portfolio, partly due to its foresight in converting a significant amount of its sterling holdings into other currencies months ahead of September's devaluation.

These examples underline the potential for increasing business success by guessing correctly the path of economic events. In each case, the decisions owe much to companies' use of economic consultancy, a sector which has boomed despite the recession.

The trend has been helped by moves within industry to contract out more specialised services on grounds of lower cost and improved flexibility. Partly because of rivalry among the consultancies, many offer services on the basis of what looks like good value for money.

The typical cost of buying in a full economic service from a consultancy – taking in quarterly forecasts, reports on specific trends and access to a computer model of regional economies or specific industries – is perhaps £10,000 a year. That works out at around one sixth of the cost of hiring a full-time in-house economist. Many consultancies offer services for even less, based around individual meetings with clients or regular reports.

One frequent advantage is that the customer can "plug in" to a network of other businesses which use the same consultancy. This happens through seminars and other meetings. Leslie Gunde, chief economist at engineering group GKN, says his company spends "a few thousand pounds" a year on services from Oxford Economic Forecasting, a UK consultancy. One spin-off is gaining access to ideas from other Oxford clients – which are in areas as diverse as computers, chemicals and banking.

The move towards using economics consultancies has also been aided – somewhat paradoxically – by the unpredictability of recent economic events. Few economists foresaw the seriousness of the UK recession, the impact of the demise of communism or the high European interest rates which followed German reunification.

Yet the uncertainties surrounding such changes have demonstrated the importance of having as robust a view as possible of what may lie ahead. "In the kingdom of the blind, the one-eyed man is king," says Doug McWilliams, head of the Centre for Economics and Business Research, a four-strong consultancy which he started last year after a career as economic adviser at the Confederation of British Industry.

It was McWilliams to whom Mahoney of Caradon Everest turned when he wanted a computerised model of the £2bn-a-year home improvements business, based on supply of double glazing for doors, windows and conservatories. For about £12,000, McWilliams provided computer software built up from consumer studies and sales data. The model predicted the 15 per cent decline in sales in the industry in the past year, a drop which Mahoney says has now levelled off amid signs of fragile recovery: "It was a real help in our decision-making."

Midlands Electricity also used a computer model to simulate demand for electricity by its 2.1m customers. This was based on work by Business Strategies, a consultancy which specialises in UK regions and which charges Midlands about £20,000 a year.

At the Prudential, the 18-strong global policy unit in which Cozens works uses the services of several economic consultancies, including the London Business School's centre for economic forecasting, Oxford Economic Forecasting and Tim Congdon's Lombard Street Research. Cozens says the outsiders are "a comfort factor" which provides a check on in-house opinions. These views supported the suspicions of Pru economists last year that the UK would be forced to give up its fight to stay inside the European exchange rate mechanism.

The UK division of International Business Machines is another member of the 16-company group – including Barclays Bank, the Pos-Tel investment group, Sun Life and Salomon Brothers – which collaborates with the LBS on its thrice-yearly forecasts.

Keith Telford, IBM's economist, says he finds invaluable the sharing of ideas with a wider group: "The specific numbers in the forecasts are less important than the framework for trying to understand broad trends."

This point has not been lost on the UK Treasury, which has been severely criticised for the inaccuracy of its recent forecasts and is considering whether to contract out the supervision of its computerised model of the UK economy. Such a move, some believe, could improve forecasting accuracy and lead to greater openness in the Treasury's debate on the economy. Discussions about this possibility took place in January between the Treasury and DRI, a big US consultancy.

If they reach a deal, the UK government would be replicating what already happens in many parts of the private sector. At United Distillers, part of the Guinness drinks group, the job of preparing economic projections which take in a broad view of social and consumer trends is left to Henley, one of the biggest UK economics consultancies. Another Henley customer is the Vauxhall car group, which asked the consultancy to prepare a £50,000 report on the potential market for its Frontera sports vehicle, launched two years ago.

With the range of services on offer – the accompanying table, incidentally, does not claim to be comprehensive – companies can shop around for the consultancy which suits them best. ICI, for instance, left the LBS group for Oxford some years ago on the grounds that the latter gave a better view of world trends.

Meanwhile Unilever, the big consumer products group, is examining the three consultancies it currently uses – LBS, Oxford and the US consultancy WEFA – with a view to dropping two of them in a bid to cut costs. However, Tony Romeo, Unilever's head of economics, says whichever consultancy it decides to concentrate on will continue to play a useful role in helping to give Unilever a wider view of the world.

WHAT THE CONSULTANCIES OFFER

Name tel. number	Turnover†	Staff	Managing director	Clients	Expertise
Business Strategies 071-630-5959	£800,000	15	Charles Burton/ Bridget Rosewell	50, inc Blue Circle, BASF, BT	C,M,N,U
Cambridge Econometrics 0223-460760	£1m	19	Terry Barker	50, inc IBM, water companies	A,M,N,U,W
Centre for Economics and Business Research 071-724-8260	n/a	4	Doug McWilliams	24, inc 3i, Siemens, IBM, London Transport	I,M,P
DRI 081-545-6200	c.$80m	c.450	Jean-Michel Six	600, inc GM, Chevron, BP	G,I,M,P,W
Ernst & Young Item Club 071-931-4226	£150,000	2	Brian Pearce	22, inc Bass MFI, Boeing, BAe, Midland	I,M,N
Fifth Horseman Publications 071-638-1286	£15,000	2	Stephen Lewis	70, mainly financial institutions	F,M,N
Henley Centre 071-353-9961	£5m	70	Eric Salama	Inc BT, Whirlpool, Glaxo	C,I,M,P
Liverpool Macroeconomic Research 051-794-3031	£50,000	10	Patrick Minford	25, mainly in finance	A,F,M
Lombard Street Research 071-623-9981	c.£300,000	8	Tim Congdon	50, inc BP, Norwich Union	A,F,M,N
London Business School 071-262-5050	n/a	27	David Currie	16, inc IBM, Barclays, Unilever, Shell	A,M,N
London Economics 071-436-2991	£3.5m	50	Robin Cohen	25, inc electricity companies	A,P,R
Oxford Economic Forecasting 0865-736311	£1m	20	John Walker	100, inc ICI, Digital Equipment, GKN, BP	A,I,M,N,W
PA Cambridge Economic Consultants 0223-311649	£2m	30	Rod Spires	Inc retailers, banks	A,C,G,R
Roger Nightingale Associates 071-378-6399	£400,000	2	Roger Nightingale	70, mainly investment groups	F,M,P
Segal Quince Wicksteed 0954-31931	£2m	42	Roger Quince	30, inc Hong Kong govt, World Bank	G,P,S,W
WEFA 071-631-0757	$30m	275	Dixon Hawkins	4,000, inc Unilever, RTZ, Barclays	G,I,M,P,W

Key: † Includes only commercial work for academic organisations.
A – academic research; C – consumer specialism; F – finance/capital markets; G – government studies
I – manufacturing expertise; M – macroeconomic forecasting; N – client network; P – consultancy projects
R – regulatory issues; S – science and technology; U – UK regions; W – offices outside UK

Source: FT information.

Sunrise industry, sunset directors

Technological know-how is an asset on any board, says **Louise Kehoe**

Shareholder activism is generally associated with institutional investors such as the big US pension funds that have recently told companies to trim executive pay and appoint more non-executive directors.

Yet as International Business Machines, the world's largest computer company, found out this week, individual investors holding only a few hundred shares can also rock the boat.

About 2,500 IBM shareholders, many of them retired employees of the company, attended IBM's annual meeting in Tampa, Florida earlier this week. Angry and frustrated by the 50 per cent drop in the value of their shares over the past year, they pilloried the company's directors with questions about their competence.

The board is "too insulated and too old" one elderly shareholder charged, to applause from the crowd. "Most of them come from the era of manual typewriters and carbon paper." Another accused directors of operating an "old boy network" and having been management cheerleaders, rather than shareholders' watchdogs.

"If I were a director I would be embarrassed to even show up here and have my name on the list to be elected," said Gilbert Jannelli, a shareholder who said that he had already sold 90 per cent of his shares. "How can you work with that group of people when their attitudes and decisions and trusting manners have caused this company's rapid demise?" he asked Louis Gerstner, IBM's new chairman and chief executive.

"[The board] surely lacks the pertinent current knowledge, skills and vision to deal with and add value to and guide IBM. I believe the board should have current chief information officers of companies, current deans of engineering schools, and current entrepreneurs, people who are really up to date," said another.

Although IBM board nominees were ultimately elected by a large majority, the questions raised by individual shareholders at the company's annual meetings may force changes in the future.

"The composition of the board and the board's ability to contribute to building this company is a subject of great interest to me and to the board, and I am sure that this board will spend a lot of time thinking about the right representatives of shareholders to carry forth what we have to do to [improve the performance of] the company," was Gerstner's ultimate response.

"We will, and this board does already, share your statement that the board has to be relevant, appropriate and evolving as the corporation evolves."

IBM is hardly alone in the information technology industry in having a board of directors dominated by individuals whose age might suggest that they are not up to date on the latest technology. Twelve of IBM's 18 directors are over 60. The average age is 61.3. Digital Equipment, the second largest US computer company, which is also struggling to regain its momentum, has a 10-member board with an average age of 66.3 years.

It is perhaps significant that the average age of directors at two of today's most successful high-tech companies is lower. Microsoft's average director age is 50.5, while Intel's is 58.25.

Hewlett-Packard, one of Silicon Valley's oldest electronics companies, whose board is chaired by co-founder and octogenarian Dave Packard, has enough "youngsters" on its board to make the average age 58.8 years.

Age is hardly the best way to determine the fitness of an individual to serve on a company's board of directors. However, the conventional qualifications – experience and business achievements – generally ensure that there are plenty of grey hairs on the board.

It may be time to consider younger candidates, as IBM's shareholders in Florida, the "retirement capital of the US", suggested. Up-to-date technology know-how is a valuable asset on any board of directors, whether it be a computer company, or a company that spends heavily on information technology. Today, there are few companies that do not fall within that spectrum.

TECHNOLOGY

Dial a court report

Evidence is growing in England and Wales that some lawyers' clients are paying for unintended repeat litigation of the same point in law because of fundamental weaknesses in the traditional shambolic "system" of law reporting.

In some cases highlighted by Kenneth Bagnall QC, chairman of New Law Publishing, contradictory conclusions are even being reached by courts unaware of each others' decisions.

For centuries it has been up to private publishers like New Law Publishing to decide which cases to report and when to publish their reports. This means that although a court decision may set a binding precedent, the date and the content of a judgment can be delayed for years, or go completely unrecorded.

"We have a legal system with two legs, one of which is broken off at the knee," says Bagnall, who last year was asked by Lord Justice Neill, chairman of the Information Technology for the Courts committee, to look at ways of speeding up law reporting.

Now he believes he has found a solution using Mercury's Surefax automated facsimile service. New Law scans written judgments into its computer system, and types in relevant verbal judgments. The text is then edited and brief digests based on a "menu" of case types are drawn up. These are faxed to the Surefax switch – a kind of automated fax exchange – using a code.

Initially New Law focused on real property and town planning cases, but has expanded its service to commercial law, insolvency, shipping and intellectual property cases among others.

The Surefax software maintains the list of subscribers' details and faxes the relevant digests to them overnight. If a line is busy it is retried until the fax goes through.

Next morning subscribers select those they are most interested in and can then receive a fuller version of the judgment by fax. Subscribers, who are expected to include the big City law firms, are billed according to usage. Most subscribers prefer fax delivery, but an electronic mail alternative is expected to be available in the future.

Paul Taylor

New Law Publishing: tel 0344-843696, fax 0344-842934.

Prudential lightens up

Daniel Green reports on a simple software rethink that is saving £13.5m a year and giving customers a friendlier service

From next month, customers of the Prudential, Britain's biggest life insurance company, should notice an improvement in their annual statements. Gone will be bulky standard documents and booklets. In their place will be prettier, slimmer forms, each one containing only information that affects the addressee.

It is the realisation of an 18-month marketing project to simplify what customers receive. But behind the marketing revamp lies a simple software rethink that will save the company more than £13.5m a year in staff and printing costs.

The Pru's marketing department began research on Operation Facelift in 1991. The aim was to make friendlier the notoriously complicated forms it sent out to existing customers.

At the same time, it wanted to change the way such forms were produced. Traditionally, the Pru sends out its 3m annual statements on 49 different kinds of pre-printed form. It overprints on to each form a statement on the customer's pension plan or life policy.

It wanted to be able to produce both pre-printed and statement information simultaneously. Statements would then be printed only when needed.

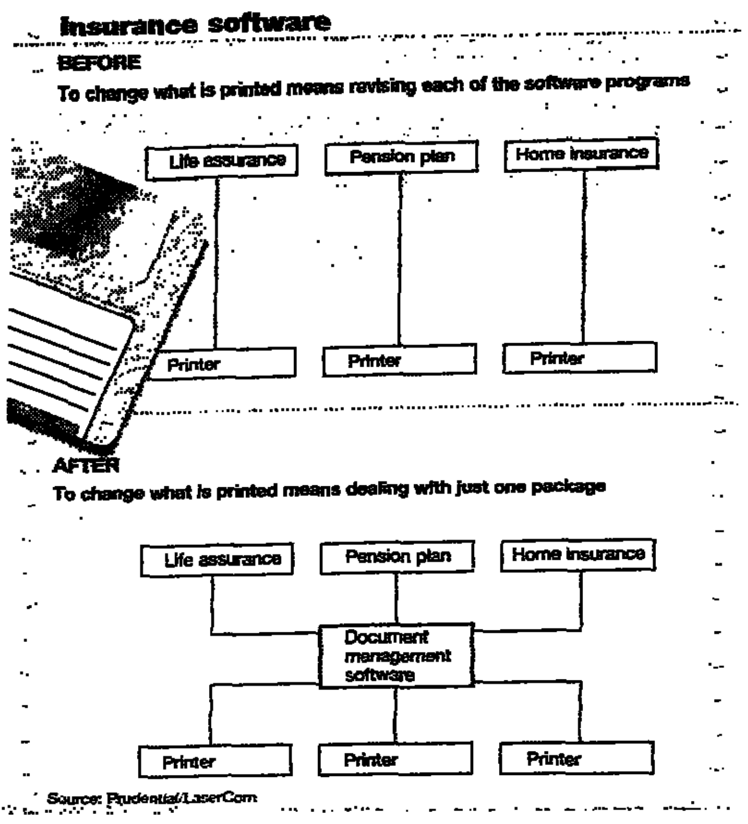
"We wanted a kind of just-in-time delivery in the financial services market," says Keith Hicks, brand communications manager. By last spring, the marketing department had decided on specifications for the new product. But the computer department baulked at the prospect of rewriting the software.

"Our software is like an archaeological dig, with 17 or 18 layers that we have built up since the late 1960s," says Andrew Pinder, director of systems and business operations.

Worse than that, he says, each category of product – such as pension plans or life policies – has its own software, written in different languages, some now obsolete. "If we want to change anything, it's very laborious. It made a lot of sense to try to find something to overlay the archaeological dig."

The task then was to find a single program to fit between all the financial programs and the printing machines. The company began to hunt for an off-the-shelf document processing package that could be bolted on to its IBM mainframe.

By the summer of 1992, the Pru had narrowed the search down to two packages: Documerge, from Texan company Image Sciences, and Custom Statement Formatter (CSF) from M&I Data Services of Wisconsin. The Pru ran an in-house evaluation looking at, among other things, ease of amending documents, consumption of computer time, how well each package created the documents, ease of slotting in the new software and cost of maintenance.



Source: Prudential/LaserCom

The final choice was CSF, which, at roughly £100,000, was several tens of thousands of pounds cheaper than its rival.

The design point of the software is that the size of the horizontal divisions is determined by the amount of information that needs to go into the space. But the change also produced savings in two main areas.

The Pru's annual printing bill was £30m. Half of that was on contracted-out lithographic printing for booklets and pre-printed forms. All the litho work has now been transferred on to in-house laser printers.

'Our software is like an archaeological dig, with 17 or 18 layers that we have built up since the late 1960s'

Meanwhile, the efficiency of the in-house printing has improved. Previously, printing machines had to be stopped frequently to switch the paper feed between any of the 49 preprinted forms. There is now only one type of pre-printed sheet.

Even though the litho print work is now done in-house, the result of the change is that eight laser printers on two sites have been reduced to six on one. There is also no need now to keep large stocks of each of the different types of form, saving on delivery time, storage and handling.

Paper consumption itself is being cut by between half and two-thirds. The pre-printed forms were designed to be overprinted with statement information for any customer, however large. This meant that the forms needed large spaces under each heading. With the new software, the space under each heading varies to fit each customer's information (see graphic).

The second area of savings was staff. For example, the laser printers include a barcode on each statement sheet to tell letter stuffing machines which extra leaflets should be included for any customer. Previously much of this work was done manually.

The new set-up also needs fewer computer programmers. The software allows changes to documents across the range of products, so there is no need for specialist print program writers working separately on each product.

And time and money are saved in the introduction of any new designs. Before, each new design meant a new contract with outside printers and the dumping of obsolete stocks.

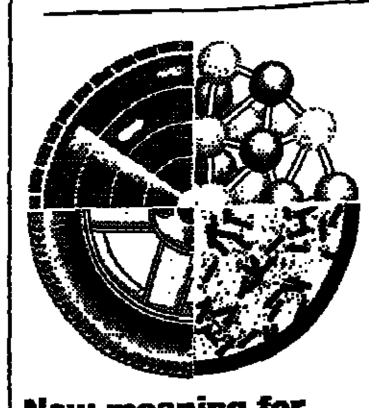
The new program is still far from perfect. The marketing department has to take its designs to the computer department for re-programming. There are plans to improve this by installing a what-you-see-is-what-you-get (wysiwyg) screen so that new designs can be plugged straight into the printing software.

Nor is printer technology yet being properly exploited. The Pru's printers still use "line mode" whereas the latest lasers have a "page mode" which allows entire pages to be printed at once.

Finally, the Pru is planning to move from IBM's mainframe operating system MVS, which manages the working of the computer, to the rival Unix system which works with computers from many manufacturers, not just IBM. CSF does not yet work with Unix.

The Pru is the first insurance company in Europe to install the software, although the European distributor, Geneva-based LaserCom, has sold it to some private Swiss banks. According to Pinder, the Pru is earning "a very good rate of return in a sensitive part of the industry" on its software investment. Hicks is blunter: "I'm trying to persuade LaserCom not to sell it to our competitors."

Worth Watching · Della Bradshaw



New meaning for home computing

For the cost of the latest electric tool, Do-It-Yourself enthusiasts can now buy a software package to help them plan their next home improvement.

The Home Series, developed by computer-aided design specialist Autodesk in Seattle, uses two-dimensional Cad techniques to enable the amateur to plan room lay-outs or even an extension. Measurements are accurate enough for an architect or builder to work from.

Four modules are available for use with Dos-based PCs: home; kitchen; bathroom and landscape, for garden design. Each module, distributed in the UK by Force 2 International, costs £59. Autodesk: US, 206 487 2233. Force 2: UK, 0844 261872.

● For professional Cad users, Isicad, of Wokingham, has upgraded its Cadvance software to be used with Microsoft Windows. Several drawings can be held on the screen at the same time, and sections from one cut and pasted on another. Isicad: UK, 0734 781500.

Ski software offers route to satisfaction

Skiers could soon get a better run for their money if the industry harnesses the latest in software.

A university lecturer, David Unwin, and student, Simeon Preston, have developed a geographical information system which means up-to-date ski maps can be produced on a weekly or daily basis. Developed initially for use in Scotland's Cairngorm mountains, the system enables skiers to better plan their downhill routes.

Eventually the developers say the GIS could have video capability, with television screens at the bottom of major ski lifts so skiers could take a simulated trip down a slope before deciding whether it really was for them. Unwin: UK, 071 631 6511.

Fine-tuning your network

Companies with interlinked local and wide area networks invariably use network management tools to warn them of network failure. But not all of them use the tools to get optimal use from the network.

With this in mind, data-networking specialist Datarange, of High Wycombe, is launching a service to help companies "tune" their networks to get them running as efficiently as possible. The solution could be as simple as filtering out broadcast messages from PCs on neighbouring networks and giving certain calls priority. Datarange: UK, 0494 441256.

Talk is cheaper with voice-activated WP

A voice-activated word processor is now available for less than £5,000. Developed in the UK by Shakespeare Speechwriter, the Compaq hardware uses the latest Intel 486 to give dictation speeds of 30 words a minute.

The Speechwriter has a 80,000-word dictionary and users can add their own catalogue of words.

To train the speaker-dependent system, the user says 200 words three times each, from which the software extrapolates pronunciations for all the other words in the dictionary. Shakespeare Speechwriter: UK, 0342 316456.

Glass disc holds more data

Glass-maker Corning and disc drive specialist Seagate Technology have teamed up to make a computer storage disc of glass, rather than the traditional aluminium.

The glass ceramic substrate, coated with the magnetic layer, can store more data while retaining the crispness of the text. This should result in higher capacity disc drives when the MemCor brand products are launched in the autumn. Seagate: US, 408 438 6550; UK, 0628 890366.

BUSINESSES FOR SALE

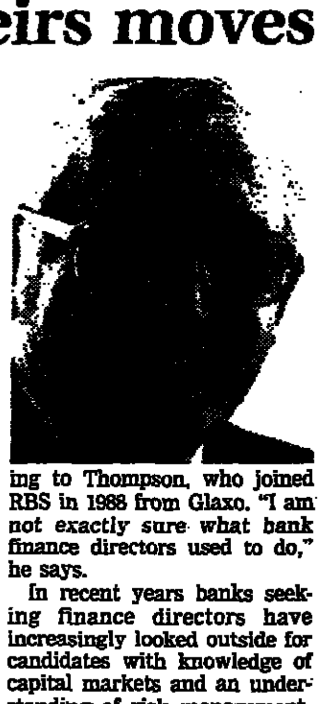
PUBLIC NOTICES

The Business For Sale section today appears in section 2.

PEOPLE

O&Y's Speirs moves to RBS

The stream of finance directors being appointed to banks from outside took a twist yesterday with the announcement by Royal Bank of Scotland that it has found a new finance chief from a most unlikely source. Despite the trouble Olympia & York's Canary Wharf development has caused banks over the past couple of years, Royal Bank has recruited its finance director.



Robert Speirs of Olympia & York Canary Wharf is moving to Royal Bank from July on the retirement of the bank's current finance director Kenneth Thompson. Speirs *(right)* acknowledged the irony yesterday, but insisted that he had learned some "salutary lessons" from the property sector.

Both Speirs and Thompson believe the job of a bank finance director has become more complex. They have to have a deep understanding of balance sheets and treasury operations these days, according to Thompson, who joined RBS in 1988 from Glaxo. "I am not exactly sure what bank finance directors used to do," he says.

In recent years banks seeking finance directors have increasingly looked outside for candidates with knowledge of capital markets and an understanding of risk management. Richard Goeltz, who was appointed chief financial officer of National Westminster last year, came from Seagram.

Speirs, who is 56, has Scottish connections from his time at Britoil, where he was finance director before the company was taken over by British Petroleum. He originally trained as a tax specialist with the Inland Revenue before switching into finance and moved to O&Y Canary Wharf in 1988.

"I think a bank finance director used to be the person who kept the books. Now they are moving more towards the corporate way of doing things," says Speirs.

■ **Robert John**, who was an executive director of Olympia & York Canary Wharf until last October, has become a partner of KPMG Peat Marwick, the accountants, specialising in advisory work on infrastructure projects. He was a director of NatWest before joining O&Y in 1987.

■ **Nigel Wilson, the former chief executive of corporate affairs at GPA, the aircraft leasing company, has been appointed finance director of Waste Management International, the UK-listed overseas arm of Waste Management of the US.**

Wilson, 36, is a former managing director of Stanhope Property and group commercial director of Dixons.

***The appointment is part of* Waste Management International's desire to be seen as a blue chip stock in the UK. The company, which operates in Europe and Asia, last year offered 20 per cent of its equity to investors.**

Although Wilson's tenure with GPA only lasted a year, his decision to leave was a blow to the group's hopes to restructure its debts. He was primarily responsible for the *company's communication* with the outside world and is expected to use his good relationships with investors and bankers to produce a bigger profit for Waste Management International outside the US, particularly in Europe and the Far East.

Wilson says he is excited by environmental services which has become a global business. WMI provies a range of solid and hazardous waste management services.

More team-building at Yamaichi

It is no secret that Yamaichi International plans to set up as a gilt-edged market-maker once it gets the official go-ahead from the Bank of England. In the meantime, the Japanese house has been busy buying up the City's gilts talent so that it has a full team in place ready to start business once it gets the green light. The latest addition to its stable is John Shepperd (right), who has been appointed chief economist of the Japanese bank.

Shepperd's move strips SG Warburg Securities of its second gilts supremo in less than six months. Earlier this year Nigel Richardson, former sidekick to Shepperd in the gilts research department of Warburgs, joined Yamaichi as head of bond research.

During his ten-year stint at Warburgs, Shepperd built up a considerable reputation for himself as one of the market's key oracles. But at Yamaichi, which he joins on July 1, his brief will be wider, concentrating on G7 economies and co-ordinating international economic research.

Yamaichi International lost its chief economist – Neil Mackinnon – to Citibank at the end of last year. However, it has lost no time in poaching various City gilts experts. It is understood that Jim Goodey, director of NatWest Capital Markets, will join Yamaichi on the gilts side in mid-May. Philip Tyson, a UK economist at UBS, recently joined as an international economist.

Yamaichi clearly wants to move into the UK government bond market at a time when the gilt market expects to see plenty of new issuance in order to meet the PSBR. It seems likely that Yamaichi will get its authorisation from the Bank of England either this summer or autumn once its full team is in place. In the meantime it is scouting for gilt traders and salesmen.

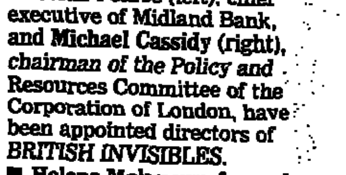
Bodies politic

■ **George Teeling Smith**, retiring director of the Office of Health Economics, has been appointed chairman of the governors of BUPA Medical Research and Development in succession to Lord Wigoder.

■ **David Bertram**, a retired director of Rockware Glass and an independent member of the Central Transport Consultative Committee, has been appointed chairman of the TRANSPORT USERS' CONSULTATIVE COMMITTEE for Eastern England.

■ **Ken Minton**, chief executive of Laporte, has been appointed chairman of the council of the INDUSTRY AND PARLIAMENT TRUST.

■ **Jeremy Gerhard**, former deputy master and comptroller of the Royal Mint, has been appointed treasurer of the COUNCIL OF CHURCHES FOR BRITAIN AND IRELAND.



■ **Brian Pearse** (left), chief executive of Midland Bank, and **Michael Cassidy** (right), chairman of the Policy and Resources Committee of the Corporation of London, have been appointed directors of BRITISH INVISIBLES.

■ **Helena Molyneux**, formerly head of European human resources at Bankers Trust, has been appointed director of personnel at the BRITISH COUNCIL.

■ **Sir Gordon Borrie**, former Director General of Fair Trading, has been appointed chairman of the DIRECT MAIL SERVICES STANDARDS BOARD Appeals Tribunal.

■ **Mike Craddock**, md of Pirelli's Standard Tyre & Exhausts, has been appointed president of The NATIONAL TYRE DISTRIBUTORS ASSOCIATION.

■ **Michael Harris** has been appointed a director of UKJAID.

■ **Peter Felton**, chairman of William M Mercer Fraser, has been appointed chairman of the ASSOCIATION OF CONSULTING ACTUARIES.

■ **John Chambers** has been appointed president of the INCORPORATED SOCIETY OF VALUERS AND AUCTIONEERS.

■ **Gerald Geddes** has been appointed president of The INSTITUTE OF MARINE ENGINEERS.

ARTS

Art / Susan Moore

A pot pourri of pleasures

There is nothing quite like the Bowes Museum at Barnard Castle. Its massive stone facade, 100 yards long and 100 feet high, enjoys the incongruity of an ornate French chateau – or some grand, provincial Hôtel de Ville – that finds itself transported, formal park and all, to the edge of a small market town in County Durham in northern England.

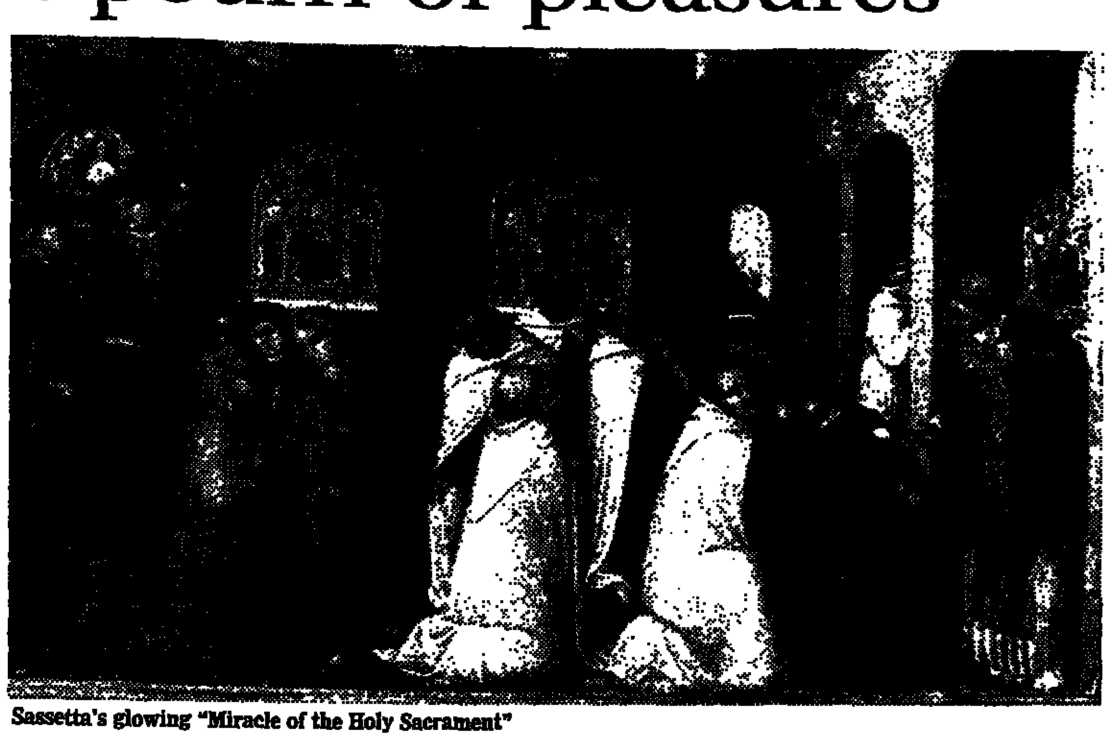
Inside the imposing granite hall, the first object that the visitor encounters is a life-size silver swan automaton devised by J.J. Merlin, an eccentric 18th century "Mechanick" and inventor whose other contributions to the pleasures of mankind include the pianoforte-harpsichord and the rollerskate.

In daily performances the graceful silver bird appears to swim in a glass pool that convincingly creates the illusion of moving water. It preens its feathers and swoops to catch a fish which is seen wriggling in its bill. The swan raises its head, displays its trophy, and then gobbles it up. That this is no ordinary museum is apparent from the start.

Automata, toys and clocks form one of many lesser collections. The Bowes is a pot pourri of period rooms, remarkable Old Master pictures, French porcelain, furniture and textiles, metalwork and glass, books and manuscripts. Here, outstanding 17th century Flemish tapestries and a glorious G.B. Tiepolo rub shoulders with a mass of lesser wares hoovered up wholesale at the great international exhibitions. It is a fascinating period piece reflecting the eclectic taste of its founders, John Bowes, and his French wife Josephine, and of the opportunities afforded by the art market in the mid and late 19th century.

A visit to the 29 paintings currently on loan to the National Gallery in London while the Bowes picture galleries are closed for re-wiring is a pale substitute for a trip to Teesside. Yet even this small selection succeeds in reflecting the quality and breadth of this highly unusual collection. Moreover, the show brings to the capital pictures of a type not to be found elsewhere in England.

John Bowes began his collecting career conventionally enough. (As the illegitimate son of the 10th Earl of Strathmore he was to inherit his father's estate but not his title, in spite of the latter's death-bed marriage.) His first purchase, aged 19, was a Temptation of St Anthony believed to be by Teniers; his second, a boar hunt by Snyders. The 1840s saw him branch out into the Italian school, paying, for instance, £25 for the grandiose and mannered "Rape of Helen" by a follower of Primaticcio, and 9.5gns for Solario's delightfully *fantastical* "St Jerome in the Wilderness".


Sassetta's glowing "Miracle of the Holy Sacrament"

Sassetta's glowing "Miracle of the Holy Sacrament" was a mere £6 15s. This Sienese predella panel of the 1420s presents an account of a Carmelite lay brother struck dead at Communion, presumably because he doubted the Real Presence of Christ in the Eucharist. While the Host gorily bleeds on its paten, a black devil flies in through the window to pull a ghostly soul out of the brother's mouth. Sassetta's church interior, studded with gold-ground altarpieces, and his elegant group of onlookers in contemporary dress, provides an informal insight into the life of the time.

The unexpected was provided in 1862 when the collection of the late Conde de Quinto, formerly director of the National Museum of Paintings in Madrid, became available on the Paris Market and the Bowes had already begun to entertain the idea of establishing a public museum. Some 75 out of its 217 predominantly Spanish pictures were eventually acquired through the dealer Benjamin Gogué. Many of those acknowledged today as masterpieces were bought as wall-filling *job-lots to the now discredited* heavyweights.

Witness the most compelling picture in the show. In "The Tears of St Peter", El Greco reproduces through oil and pigment the anguish and repentence of the faithful Disciple overcome with sorrow for having denied Christ. This is no typical Counter Reformation performance of sentimental, dewy-eyed hand-wringing. El Greco spurns the standard histrionics. Instead, he exploits the tension of contrasts, the painterly gesture and the emotive power of colour – harsh blues and sulphurous yellows – to give force to the anguish of Peter's soul.

To our eyes, it is a profoundly sincere and affecting image by this most idiosyncratic of painters. For Bowes, El Greco was an artist whose star had not yet soared into the ascendant. He purchased the canvas for 200 francs, around £8.

Two small Goyas also find their way to London. There is the sensitive portrait of his friend, the poet and lawyer Melendez Valdés. "An Interior of a Prison" is a grim indictment of man's inhumanity. The last great treat of the show is the 18th century French painting – *not only the highly decorative* Boucher and Hubert Robert (seen through blue- and rose-tinted spectacles respectively) but the classical landscapes and genres by the likes of the wonderfully named Achille-Etna Michallon and Granet, artists most familiar in this country for their fresh, outdoor oil sketches.

An appropriate postscript is Courbet's "View of Ornans", purchased the year after it was painted in 1864 and perhaps the first work by the Realist master to enter a British collection.

The exhibition continues at the National Gallery in Trafalgar Square, London, until June 20. The picture galleries at the Bowes Museum re-open at the end of October.

Opera

Enthralling Ariodante

Reports of death, or at least a serious wasting disease, at the English National Opera have been piling up this season, the last under the artistic triumvirate of Jonas, Elder and Pountney. On the evidence of the new *Ariodante*, they have been exaggerated.

Wednesday's account of Handel's *1735 Italian opera – one of his three* based on Ariosto's *Orlando furioso*, one of his most original and beautiful – *lashed out with powerful theatrical* vitality. At every moment alarming risks were taken and disquietingly intense, complex states were being searched out. On such an evening the ENO could be seen and heard to recover the form established in its keynote productions of recent years.

Musically, the performance, scrupulously prepared, was delivered with notable (if not uniform) virtuosity and fidelity to the score – all of it, lasting four engrossing hours, and including the ballet episodes. And dramatically, the modern re-imagining of Handel's *opera seria* dramaturgy demonstrates, I insist, its own fidelity – to the spirit, if not the letter, of the notes and words.

It is not a "sure-fire" *Ariodante* that David Alden and his associates (designer, Ian MacNeil, lighting director, Wolfgang Göbbel) have devised. The style essayed is not the supremely civilised late-20th-century survey of 18th-century modes and manners achieved by Nicholas Hytner in *Xerxes*, the previous Handel production at the Coliseum. People who have kept apace with Alden's work on this stage would hardly expect it to be; surreal dislocation is his well-documented forte. What may surprise them are the new elements in his production *vocabulary: a new design-partner* (the Olivier Award-winner for the National's *An Inspector Calls*) has *encouraged him to shed the* bare light-bulb, tiled bathroom wall and kitchen chair that have provided the identificatory flourishes to the Alden signature, and work up a fresh surge of theatricality.

The atmosphere of *Ariodante* is unique. The libretto (drawn by Antonio Salvi from the same tale in *Orlando furioso* that inspired *Much Ado about Nothing*) is focused on a single act of carefully planned treachery, yet shows pastoral warmth, courtly delicacy, romantic ardour, irony, pathos, and tragic agony, all in full-blending co-existence. It permitted Handel to move through the entire range without clash or absurdity, creating a drama of conflicting emotions that is as "personal", as intimately charged, as any in opera.


Alastair Muir

Ann Murray (top) and Lesley Garrett in "Ariodante"

In Alden's and MacNeil's re-invention, it all takes place under (and, in one scene, upon) a mobile segment of Baroque ceiling, frescoed and corniced, which – like much else in the decor and costumes – infuses controlled bursts of brilliant colour into the theatrical pattern. Its action defines the production hallmark: 18th-century shapes and figures, wrenched out of "period" context and on to a 1993 stage, now fiercely, now with hypnotised slowness, with the purpose of heightening the intensity, and often the disturbing ambiguity, of Handel's emotional spectrum.

In common with Alden's ENO versions of *A Masked Ball* and *Bluebeard's Castle* – outstanding productions both – this show is full of startling visual sleights-of-hand, movement-mannerisms developing thematic function and also a dangerous potential for audience irritation. Acts of violence are plentiful. Moments of dream-fantasy (such as those tormenting the betrayed heroine Ginevra in the remarkable finale of Act 2) are horribly – gratuitously? – vivid. The opera's architectural variety, and the lighter moods that come to re-inforce it, *find little representation*. On the other hand, I have experienced few Handel productions based on a *more tautly woven ensemble of* flesh-and-blood characters.

Many Handelians will loathe this *Ariodante*. They have my understanding, even sympathy: Alden, even at his peculiar, idiosyncratic best, has always excited passionate response. For Nicholas McGegan, an experienced Handel opera-conductor making a belated debut at a London opera-house, there will surely be praise all but unstinted. In so big a theatre, with a modern-instrument band disposed in so deep a pit, he had passing difficulty holding voices and instruments together; but the vitality of sound, with each astonishing rhythmic *inflection and streak of colour given* its due weight of emphasis, afforded the production a wonderfully secure and solid basis.

In the title role Ann Murray enjoys the latest of her London *Handel triumphs; early on she* seemed a mite below best form, putting too much verismo into "*Scherza infida*", *but then bringing* absolute authority to the light-after-dark final aria. Amanda Roocroft, *vulnerable and touching as the* tragic Ginevra, continues to develop her richly endowed soprano – more clarity is still needed in low-lying phrases, more verbal thrust everywhere. Lesley Garrett (Dalinda) and *Christopher Robson (Polinesso)*, ENO Handelians of masterly stage authority, draw sharp, strong lines in the schemers' *roles:* both offer moments of uneven tonal emission, whole stretches of superlatively singing-acting. Only the ill-equipped bass King counts as a weakness.

Amanda Holden's new translation strikes me as a shade less skilful than usual: well-shaped phrases sit alongside less singable ones, and one or two of pure translatorese. Even so, opera in the language of the audience is a cause well served by this latest example. I found this *Ariodante* enthralling from start to finish, warts and all. I cannot imagine anyone left indifferent to it.

Supported by ENO Trust: in repertory at the London Coliseum until June 10.

Max Loppert

London Concerts

Gruber's marvellous confection

Mahler's death-haunted *Das Lied von der Erde* was preceded, in the London Philharmonic concert on Tuesday, by H.K. Gruber's "pan-demonium" *cabaret Frankenstein!!* from 1978. Bizarre, but not unreasonable – granted a long interval between them, which there was: though Gruber is a wild card, even at his jokiest he embodies a deep Viennese continuity. Mahler too had a sense of humour, not so very different.

The planners of the "Alternative Vienna" series may have missed a trick by not putting this programme first. In a pretty well-filled Festival Hall, the audience – of whom some unknown but sizeable proportion must have come for *Das Lied* – were evidently entranced and delighted by Gruber's marvellous confection, as audiences invariably are. It was a pity that they had already missed his Cello Concerto last Saturday, and had only 24 hours' notice for his Violin Concerto no. 1 ("*aus schatten duft gewebt*", "woven from the scent of shadows") which Ernst Kovacic played on Wednesday with the London Sinfonietta. After all, it was *Frankenstein!!* that revealed to a wider public that something quite original was going on in Vienna.

A few shellbacks make it a point of honour to resist Gruber's blandishments *(a chap in front of me* stalked out after the third or fourth song), some of them old-style conservatives and some severe modernists, who can all agree that he is *slumming*. Yet this off-the-wall entertainment, set to wicked "children's verses" by H.C. Artmann, fairly wriggles with bright twists on familiar tropes, popular and classical alike; makes inspired play with toy-instruments; relies shamelessly upon the composer's own ripe idiosyncrasies as *chansonnier* – and yet fixes the goal-posts for a serious new game.

Franz Welser-Möst conducted it sympathetically, though without the flair and crackle that Simon Rattle bestowed on its Liverpool première. In the event, the subversive charms of *Frankenstein!!* were enhanced by contrast with Welser-Most's lacklustre *Das Lied*: better than his spavined Mahler Ninth last week, but still stiff and short-breathed – as he left his tenor Thomas Sunnegardh, starved of air by his unrelenting beat. The mezzo was Doris Soffel, whose clarion *eloquence wanted softer edges for* "Von der Schönheit" and the visionary *Abschied*.

Next night in the Queen Elizabeth Hall, Gruber himself conducted his ravishing violin concerto: all its fey excursions generated with cogent fantasy, and in Bergian shot-silk textures, from a tender pop song of his own which is revealed only at the close. Kovacic, its dedicatee, played it sweetly and soulfully, rejoicing in the stratospheric new flights the composer devised to flank the final song fore and aft.

Gruber also led, and was heard in (both live and on tape), the *Groove Music* of young Lukas Ligeti, son of the celebrated György. Jazzy material – much like Michael Torke's and mostly loud – was distributed among the performers, following different computer click-tracks on their own earphones, which ensured that their disparate paths would crisscross regularly and resoundingly. Plenty of raw, candid energy, less of finesse; at some 22 minutes, slightly overstretched.

That concert began and ended with vintage Kurt Schwertsik, Gruber's senior colleague and incessant inquirer. For his 1974 *Music from Mu ("Mu" was a mythical* Pacific Atlantis, the terrain of '30s novels by Colonel Churchward) *he drew upon his investigations of* Javanese music to create a pithy, pawky sound-world in little. The *Sinfonietta* brought it to palpable life.

Eight years later Schwertsik wrote a fairytale opera after Brentano, *Das Märchen von Fanferlieschen Schönefüsschen* – "The Wondrous Tale of Fanferlizzy Sunnyfeet" – which has been travelling Europe ever since (Paul Driver reviewed it warmly on this page when it reached south London a year or two ago). Its interludes add up to a delectable sequence: laconic, funny and various, affectionately backward-looking but fractured, and scored for an off-balance ensemble that establishes its own suave terms. The nearest comparison that comes to mind is Walton's *Façade* Suite – but I could listen to these Schwertsik "Transformation Scenes" *much* more often, expecting fresh post-modernist disclosures every time.

David Murray

Just a comic-strip Moll

It was a good idea to stage Daniel Defoe's *Moll Flanders*; I can easily imagine a big production along the lines of the RSC's *Nicholas Nickleby*. And it would have been a bright idea to set it to music, were there a composer with the talent for it. *Moll Flanders* (1722) is the English counterpart to the Abbé Prévost's *Manon Lescaut* (1733). Both Moll and Manon are women who learn how to use sex and crime (and to forgo love) for economic gain. Both are deported to the New World. But whereas Manon – whose fatal allure appealed so much to the Romantics – has acquired famous reincarnations in opera and ballet, Moll, a more liberated lady who is in firmer control of her own destiny, is too little known. .

But here the writer Claire Luckham has told Defoe's richly adult tale as if *Moll* were a strip-cartoon for 14-year-olds. Everything is all narrative, silly tableaux, and more narrative, with the odd bubble of live dialogue (sung) popping out of the characters' heads. Only when Moll returns for the last time to London, and discovers thieving, does the show stop treating the 18th century in terms of cheap caricature; and, as with so many inferior musicals, the most gripping moments are spoken. Paul Leigh's lyrics are in wiseguy rhymester vein. They have a certain satirical energy which – though it grows tedious overall – animates such episodes as Moll's arrival in Bath.

A good composer might just have injected this libretto with enough lyricism to make it winning. But George Stiles's score – partly based, along *The Beggar's Opera* lines, on period tunes – is deft and negligible. The only tune that could stay in your head is good old *Greensleeves*, which becomes Moll's and Jemmy's big love tune; and even that is cut up into short phrases and rearranged so that it never opens into full bloom. This is a musical conceived by people who do not love singing.

What I hate about Peter James's direction is that it so caricatures Moll's world that any kind of serious, fully-fleshed-out playing would be unstylish. The crudest playing onstage comes from Issy Van Randwyck, but I came to be almost grateful for her sheer energy in a largely underpowered show. In the only episode that the show treats with any 3-D humanity, Angela Richards gives the thieves' agent Mother Midnight a brooding eloquence.

As Moll, Josie Lawrence gives Moll no character. She goes through the motions, either in sardonic or earnest mood. But this Moll is just a bland girl caught up in a naughty world. And her singing and acting are all in dull shades of grey.

At the Lyric, Hammersmith, until May 22.

Alastair Macaulay

INTERNATIONAL ARTS GUIDE

It has been dubbed an English invasion: *Peter Jonas leaves his* post as director of the English National Opera at the end of this season to become *intendant of* the Bavarian State Opera, and *his plans for the Munich company* include a strong British-based contingent.

In the 1993-4 season, Tom *Cairns will stage Un ballo in* maschera, Richard Jones takes on Giulio Cesare and David Alden is given Tannhäuser *(with Zubin* Mehta, the only star conductor on the roster). The Handel is conducted by Charles *Mackerras* and designed by Nigel Lowery. Repertory conductors include the departing *ENO music director* Mark Elder, Noel Davies, Richard Armstrong and Paul Daniel. Colin Davis *will conduct a new* production of Don Giovanni in the 1994-5 season.

There are fewer *new faces in* the cast lists, and some local sceptics have suggested Jonas' impact on a traditionally *conservative company may be limited by the fact that he is* retaining most of the senior management from the previous era. *There is relief that he has* not gone chasing after cult directors like Ruth Berghaus and *Bob Wilson* - but also some doubt about whether his music director, Peter Schneider, can *inspire the company* to the high musical standards it enjoyed under Wolfgang Sawallisch.

***Jonas's boldest initiative* is to sharpen the contemporary image of the company - on a day-to-day *basis through* better publicity and marketing, but also through annual opera commissions from *leading German composers*, including Hans Werner Henze and Aribert Reimann. Jonas's *stated aim is to show* that opera cannot exist in an ivory tower, but must respond to the political *and cultural changes of our day*, as an active force in society.**

After repair work on the *hydraulics system of the National* Theater lasting the whole of this season, the Bavarian State Opera *returns to its home in July for* the annual Opera Festival. This year's highlights are new *productions of Lady Macbeth* of Mtsensk with Hildegard Behrens and La traviata with *Julia Varady*, plus the *first* Munich showing of a new staging of Die Frau ohne Schatten, first seen last November on tour in Japan. Scottish conductor Donald Runnicles makes his Munich *debut with Don Giovanni*, and Felicity Lott and Thomas Hampson give song recitals *(Festspielkasse der Bayerischen* Staatsoper, Maximilianstrasse 11, D-8000 Munich 22, tel 221316).

EXHIBITIONS GUIDE

AMSTERDAM

Van Gogh Museum Walter Sickert retrospective. Ends May 31. Also Courtesans in Japanese Prints. Ends Aug 29. Daily
Rijksmuseum Meeting of Masterpieces: Vermeer's Street in Delft (1658-60) alongside Pieter de Hooch's The Courtyard of a House in Delft (1658). Ends May 23. Closed Mon

ANTWERP

Musée Royal des Beaux-Arts Jacob Jordaens: large-scale retrospective of the Flemish baroque painter born 400 years ago. Ends June 27. Closed Mon

BONN

Kunst und Ausstellungshalle Dancing Pictures: 80 cloth paintings from Ghana over the past 150 years, illustrating the bright colours and fertile imagination of the Fante tribe. Also Alexander Calder: 12 monumental sculptures. Ends Sep 30. Closed Mon

CHICAGO

Art Institute Magritte. Ends May 30. Also Surrealist Works on Paper from the Shapiro Collection. Ends May 16.
Chagall: Moscow Jewish Theatre Murals. Ends May 10. The Moscow Avant-Garde: ten architects from the postwar period. Ends Aug 15. Daily

GLASGOW

Hunterian Art Gallery William Blake and his Circle: the museum's contribution to Mayfest 93 is the important collection of Blake prints held in Glasgow University Library and the Hunterian. The centrepiece is the outstanding copy of Blake's illuminated book Europe, and there will be works by Blake's friends and followers. Ends June 26. Closed Sun

LONDON

National Gallery 18th and 19th century paintings and drawings from Lille, including major works by David, Delacroix, Courbet, Chardin and Sisley. Ends July 11. Also Paintings from the Bowes Museum: 29 works from the fascinating collection founded by John and Josephine Bowes at Barnard Castle in the 1860s. Artists represented include Goya, El Greco and Courbet, plus examples of work by Neapolitan and Flemish painters. Ends June 20. Daily.
Tate Gallery Georges Braque. Ends June 27. Visualising Masculinities. Ends June 6. Daily
Royal Academy of Arts Georges Rouault 1903-20. Ends June 6. Daily
Hayward Gallery Georgia O'Keeffe retrospective. Ends June 27. Also James Turrell: three installations by one of the most original of contemporary American artists. Ends June 27. Daily

NEW YORK

Brooklyn Museum Manet to Picasso: 35 rarely seen works on paper, created between 1870 and 1940. Ends May 23. Closed Mon and Tues
Guggenheim Museum Picasso and the Age of Iron. Ends May 16. The main museum is closed on Thurs, the SoHo site on Tues.
Museum of Modern Art John Heartfield, inventor of photomontage. Ends July 6. Also Santiago Calatrava, Spanish architect and engineer. Ends May 18. Closed Wed
Metropolitan Museum of Art The Greek Miracle: classical sculpture from 5th century BC. Ends May 23. Also The Havemeyer Collection: 450 works ranging from French impressionists and old masters to Asian art and Islamic pottery. Ends June 20. Imperial Painting of the Ming Dynasty: 100 works, mostly on silk, from the Zhe School. Ends May 9. Closed Mon
Whitney Museum of American Art 1993 Biennial. Ends June 13. Closed Mon

PARIS

Centre Georges Pompidou Matisse 1904-17. Ends June 21. Closed Tues
Grand Palais The Century of Titian. Ends June 14. Also Amenophis III. Ends May 31. Closed Tues, late opening Wed (ave du General Eisenhower)
Musée d'Orsay 1893: The Europe of Painters. Ends May 23. Closed Mon, late opening Thurs (quai Anatole France)
Musée Picasso Picasso and the bulls. Ends June 28. Closed Tues
Galerie Gerald Piltzer Chagall: 40 works. Ends May 8. Closed Sun (78 ave des Champs-Elysées

PRAGUE

Convent of St George Bohemian Heaven: The Topography of Pilgrimage Sites and the Iconography of Patron Saints in the Bohemian Baroque. Leaving aside the larger works of Baroque art, this show attempts to explore the spiritual ambience of the country after the Thirty Years War. It includes small devotional graphics, votive tablets from the 17th and 18th centuries, and the most venerated Marian picture of the Bohemian Baroque, Paladium of Staraboleslav. Ends June 13. Closed Mon (Prague Castle)
Convent of St Agnes of Bohemia Prague in the Drawings of Bohumir Kozak: 70 original drawings in which the Prague architect depicted the city's monuments from the Romanesque period until after the 19th century renaissance. Ends June 13. Closed Mon (U milosrdnych 17, Stare Mesto)
Zbraslav Chateau Vaclav Cigler (b1929): 50 drawings, five sculptures and six landscape installations by an artist known primarily for his glass sculpture. Ends June 27. Closed Mon (Zbraslav Nad Vltavou, Prague 5)
Wallenstein Riding School Bohumil Kubista (1884-1918): 160 works by one of the strongest personalities at the dawn of Czech modern art. Ends May 30. Closed Mon

ROME

S Michele a Ripa Borghese Collection: 300 paintings from the Galleria Borghese, including works by Titian, Caravaggio, Rubens and Raphael, on show in this deconsecrated church while the villa in the Borghese gardens is being restored. Ends Dec 31

STUTTGART

Galerie der Stadt Munch and his Models: 100 works illustrating how the Norwegian Expressionist penetrated the inner psychology of his subjects. Ends Aug 1. Also Pompeii Rediscovered: 200 original objects, including frescoes, marble and metal sculptures, jewellery, ceramics, instruments and other *archaeological remains, complete* with computerised guide to their origin and use. Ends July 11. *Closed Mon*

WASHINGTON

National Gallery of Art Great French Paintings from the Barnes Foundation: 80 of the finest French *Impressionist, post-impressionist* and early modern paintings, including works by Renoir, *Cezanne, Manet*, Picasso, *Gauguin*, Matisse and Braque. Ends Aug 15. Also Helen Frankenthaler (b1928): 75 prints by the American artist. Ends Sep 6. William Harnett, 19th century American still-life painter. *Ends June 13. Old* master and modern drawings from 16th to 20th centuries. Ends Aug 15. *Daily*
National Portrait Gallery American Art at the 1893 World Fair: 100 paintings and sculptures displayed at the Chicago exhibition 100 years ago which helped redefine American attitudes towards the arts. Ends Aug 14. Daily
National Museum of American Art Masterworks from American Art Forum Collections 1875-1935: 64 works by Albert Bierstadt, Childe Hassam, John Singer Sargent, Edward Hopper and others. Ends July 5. Daily

RW 'Tiny' Rowland, joint chief executive of Lonrho

Guardian of tradition

Raymond Snoddy on a battle for Britain's oldest Sunday title

Few conspiracies succeed in the newspaper industry. Those involved cannot help gossiping or boasting, the scheme leaks and is stifled before birth.

But a conspiracy involving a small number of senior journalists at The Observer may have played a significant part in saving the paper, by steering its idiosyncratic proprietor Mr Tiny Rowland, joint chief executive of Lonrho, away from the embrace of Mr Andreas Whittam Smith of The Independent and the Independent on Sunday and into the arms of The Guardian.

The group of journalists, fearful that the paper could be merged with the Independent on Sunday, and lose its separate identity, have been talking secretly to Guardian executives for many months.

Twice last year, in May and October, there were handshake agreements on a sale to The Guardian, apparently with the knowledge and acquiescence of Mr Rowland. On both occasions Tiny changed his mind and the deal was off.

The group moved fast last week when it looked as if Newspaper Publishing, publisher of The Independent and its Sunday sister, was getting close to a possible deal. Unlike The Guardian, it was able to offer a slice of equity as well as cash.

A deliberately exaggerated version of events was leaked to the Evening Standard, which led its front page with the story last Friday, saying The Observer was in its death throes and that a sale to The Independent was close.

Members of parliament were encouraged by Observer journalists to join the debate last weekend, condemning any deal which would involve Britain's oldest Sunday newspaper disappearing after nearly 202 years.

The Financial Times inadvertently played a role in the outcome. Mr Rowland, it is believed, was furious after three executives from The Independent were allowed into the FT printing plant last Saturday to see The Observer being printed. The Observer is printed under a contract on the FT's presses in London's Docklands which runs until January 1995.

But perhaps the most telling weapon used by Observer journalists was a letter to Mr Rowland thanking him for all his efforts to sustain the paper through its years of losses, but asking whether he wanted to go down in history as the man who killed The Observer. It seems to have hit its target. Although Mr Rowland no longer had the power or even perhaps the dermination to prevent other Lonrho shareholders, such as Mr Dieter Boch, pushing ahead with a sale, he did have the influence to help determine who the buyer should be. Mr Boch is joint chief executive of Lonrho and its largest shareholder.

Newspaper Publishing was told early yesterday that negotiations had been broken off and that there would be an announcement later in the day. Talks between Newspaper Publishing had failed to reach agreement on Wednesday.

Mr Whittam Smith said yesterday that he had never intended to close down The Observer. There would have been, he insisted, a "genuine union" involving the staffs of both newspapers.

However, Mr Donald Trelford, editor of The Observer for 18 years, was applauded when he told his journalists at 10.30am yesterday that Lonrho had received an offer from The Guardian and Manchester Evening News "which it finds acceptable". The offer, in effect an agreement subject to contract, will be put to The Observer board on Tuesday and is likely to be accepted. Neither side would disclose the terms, but it is believed to be worth about £25m.

The deal is bad news for Newspaper Publishing. A merger could have created a "non-right-wing" title with a circulation of about 750,000 which not only would have been profitable but which might have challenged the dominance of The Sunday Times for the first time.

Newspaper Publishing yesterday announced pre-tax profits of more than £341,000 for the six months to March. It believes if it can be profitable in a recession it can do even better in a recovery.

A Guardian-owned Observer is likely to increase competition in the broadsheet Sunday market, which has been static or gently declining over the past few years.

Few details of the new Observer could be confirmed yesterday, although Mr Peter Preston, Guardian editor, told his staff that the paper would have a "more distinct voice" than that of being merely The Guardian on Sunday. Observer staff believe The Guardian will take on 60 to 65 of its 80 journalists and that there will continue to be a separate advertising department.

The key question now is whether there is room for four broadsheet Sunday newspapers. Senior Newspaper Publishing executives believe there is, particularly now the market has been rising for the past two months.

Mr Andrew Neil, editor of The Sunday Times with a circulation of up to 1.26m in recent weeks, says the battle between The Observer and The Independent on Sunday has to be resolved before he faces a significant challenge.

In a reference to Scottish football teams, Mr Neil said yesterday: " Brechin City have to play Raith Rovers for the right to play Glasgow Rangers."

The Sunday Times editor says he has many plans, including publication of the Thatcher memoirs, to make his paper more impregnable before any big circulation assault comes.

Newspaper consultant Mr Harold Lind said yesterday he was surprised that The Guardian had not decided to wait until an Independent-Lonrho deal was turned down by the Monopolies and Mergers Commission. Then, Mr Lind said, The Observer could have been picked up for a knockdown price.

Competition between The Observer and The Independent on Sunday was now going to be like the western front during the first world War. "One more push and we'll win by Christmas is their hope. Let's see which Christmas," Mr Lind said.

But in The Observer's Marco Polo building in Battersea last night there were many happy journalists – some prepared to pay tribute to Mr Trelford for keeping many of The Observer traditions alive; above all for keeping the paper alive until it could find a new home.

Joe Rogaly

Howard's way on energy

The thought that a spot of sunbathing this summer may give us skin cancer serves to concentrate the mind. In November it scared governments into agreeing at Copenhagen that the production of most chlorofluorocarbons will be phased out by 1996, some years earlier than previously envisaged. This – the fear factor – is the first law of environmental policy. We do respond to threats, as with the news that the ozone layer over Europe is thinning out. Believe me, restrictions on CFC substitutes, some of which also destroy ozone, will follow the next upward blip in the graph of reported cancers.

There is no similar bogey that might have such a dramatic effect on the burning of coal, oil, gas or other fossil fuels. The threat of global warming is neither clear nor imminent. The damage will not begin to be felt until the middle of the next century. The most serious harm comes much later. Yet "do nothing" is not a serious option. Mr Norman Lamont may still be chancellor on April 30 2093 but everything else will be different. "Do nothing" would probably result in the planet, and our own species, being afflicted by a mostly adverse change in climate patterns.

If human behaviour was rational the precautionary principle would therefore inform the actions of individuals and governments alike. Emissions of greenhouse gases would be steadily reduced in order to minimise global warming over a long period. Humans are, however, irrational. We enjoy ourselves that way. This devalues the government's presumption in favour of using economic instruments to reduce emissions of CO_2. For the market alone will not save the global environment. It depends too much upon rational decisions by the mythical robot known as "economic man". We lunatics have to be bribed, cajoled or coerced into reducing our consumption of energy.

Just how much of the mix the British polity will take will be debated in London next Friday at a conference called by Mr Michael Howard, secretary for the environment. This exercise in open government is aimed at producing a British strategy for meeting the country's commitment to reduce CO_2 and other greenhouse gas emissions to 1990 levels by 2000, as agreed at last year's Earth Summit in Rio. There is no need to get carried away by this. Britain is responsible for just a twentieth of the world's emissions. It can do little on its own. It might, however, do a lot if it became a model of both economic and green behaviour. Then when it tries to press a particular strategy on, say, China, it can argue from example.

The market alone will not save the environment. It depends too much upon the mythical robot known as 'economic man'

Mr Howard's conference papers will address three broad possibilities. First comes voluntary action, such as a partnership agreement between the chemicals industry and the government on monitoring energy efficiency. Further specific taxes, such as the extension of value added tax to domestic heating fuels, are not ruled out. Yet we all know that the chancellor does not favour a specific carbon tax. Other mechanisms, such as regulation, come third.

The last should be placed first. The limits of both the price mechanism and voluntary behaviour became clear to me on Tuesday. Always a sucker for seminars on greenhouse gas emissions, I could not resist an invitation from Green College Oxford. This charming institution owes its name to its founder, not Tuesday's subject matter, although the college does house a centre for environmental policy.

The talks after the first coffee break, as ever the ones for which I am most awake, should be reprinted and forwarded to the environment secretary. For example, Dr Mary Archer, chairman of the National Energy Foundation, told of a marketing exercise aimed at selling home energy ratings. These estimate payback periods for various ways of insulating your house. A bargain deal on ratings at £50 a throw was advertised on regional TV, but the results were disappointing. Plenty of "awareness" was created, but few orders.

Then Dr Brenda Boardman, research fellow at Oxford's environmental change unit, rattled out some fascinating figures of her own. Rational householders would all insulate their lofts tomorrow. It is cheap, and the payback is quick. Yet between 1974 and 1989 only 17 per cent of 9.3m insulated properties in Britain laid the woolly stuff in their attics as a result of private initiative. The rest is there because it is obligatory in new buildings, or because there has been a government grant, or because it was installed by the landlord – usually in the public sector. Annual value: £40m. Against that about 7m homeowners spent some £1.4bn a year on double glazing, the "energy-saving" measure with the most unlikely payback ever. This was entirely the market at work: we can all picture the salesmen and their lists of mostly spurious reasons for installation. I bought some myself, fool that I am.

Very well, you might say, individuals have their own reasons for buying things. Industrialists are more sensible. Perhaps. But Dr Tim Jackson of the Stockholm Environment Unit showed us slides depicting savings made by various energy-efficiency strategies, such as switching fuels (greatest saving) to advanced coal technology (additional cost). He then flashed a slide showing no savings at all. He had simply changed the discount rate in his model. The moral is clear. When Mr Howard flourishes an agreement for voluntary action by this or that energy-intensive industry, or when he talks of tradeable pollution permits, ask the simple question – at what rate of interest?

Please do not conclude from all this that I see no value in the price mechanism, particularly when it is manipulated by adding green taxes or subsidies. The switch to unleaded fuel is an example of how this can work. Voluntary action also has its place, as with the growing fashion for taking rubbish to recycling points. But stop there. At Oxford Dr Philip Goodwin of the university's transport studies unit, said that the average out-of-town supermarket is filled by seven 38-ton lorries every day – and emptied by 5,000 cars. Multiply the mileage, and, I would add, take in an extra 20 per cent for trips to recycling depots, and bang goes your CO_2 reduction plan. The government will have to regulate. If it shrinks from that, there is one possibility left: nuclear power.

LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL

Fax 071 873 5938. Letters transmitted should be clearly typed and not hand written. Please set fax for finest resolution

'Game' of picking winners has worked well in east Asia

From Mr Andrew Allcock.

Sir, I hope that the leader writer responsible for "Mr Heseltine's magic lantern" (April 26) will have read Michael Prowse's adjacent article. While the leader writer was concerned to draw attention to the "unrewarding and outdated game of picking industrial and technological Euro-winners", Mr Prowse's article highlighted the positive aspects of just such action for the successful Asian economies: "Government played a big role [in their economic success], trade was not open and financial markets were repressed ... The lesson from east Asia is that you need a government guiding hand: you cannot just abdicate development to the private sector." And the article concludes, saying: "The implication is that sufficiently determined governments can work similar miracles in other places."

Just because the UK is an old, established industrialised country, it does not mean that it cannot or should not adopt the practices of successful newcomers.

Indeed, the government is very fond of talking about the fact that UK manufacturing industry has benefited from the imported working practices of Japanese companies, for example. Quite right. But why should it, or your leader writer, believe that other elements of Japanese or Asian practice are not also suitable candidates for adoption?

Andrew Allcock,
10 Friars Close,
Tankerton,
Whitstable,
Kent CT5 1NU

In defence of Attali's preference for marble

From Mr Jonathan A D Long.

Sir, Your current enthusiasm for attacking Mr Jacques Attali and his expensive toy, the European Bank for Reconstruction and Development, seems to be seriously misdirected.

The essence of the criticism is that rather than lend huge amounts of depositors' money to borrowers who are unlikely to repay any of it, Mr Attali has chosen to invest his bank's limited resources in bricks and mortar (or Carrara marble).

Given the disastrous record of most big international banks in trying to make loans which are repaid, surely Mr Attali's policy should be commended?

Pawnbrokers and, until recently, building societies have coped quite successfully with the intellectual challenges of money-lending. Bankers, on the other hand, have in general failed abysmally and the least unsuccessful, such as Mr Attali, have preferred to build palaces on the Bahnhofstrasse and elsewhere, rather than to finance bankrupt countries, highly leveraged management buy-outs or fantasy projects.

If Mr Attali's approach is considered too conservative by his shareholders, no doubt Barclay's Mr Andrew Buxton could be drafted in to replace him and a radical change in the bank's lending policy would then be assured.

Jonathan A D Long,
Travellers' Club,
Pall Mall,
London SW1 5EP.

St Ethelburga must be fully restored

From Mr Brian Gill.

Sir, The virtual destruction of the ancient church of St Ethelburga on Saturday morning ("Historic church reduced to rubble after 600 years", April 26) represents far more of a loss to the City than the loss of a few office blocks which can easily, if somewhat expensively, be replaced.

St Ethelburga's is a symbol of the will of the City to survive and prosper and the psychological boost of its complete restoration would both do immeasurable good and send the clearest possible message to terrorists of any description that the City's spirit is unbreakable.

Brian H Gill,
261 Grove Street,
Deptford Wharf,
London SE8 3PZ

Pro Ned's future role in non-executive selection

From Mr Colin St Johnston.

In welcoming your review of Pro Ned's first 10 years (April 26), I would like to make two further points. Yes, the non-executive message has been received but appointments are far too often made in an amateur way where selection starts with the man rather than the job.

The boards of many UK-listed companies still have to be persuaded of the benefits of a thorough and professional selection procedure which is understood and respected. Our research (July 1992) showed that only a third of non-executive appointments in the previous 12 months were made with the help of professional advisers. Pro Ned was involved in half of these.

Research also revealed that more than half of non-executive directors believe they could be more effective. Companies must therefore be encouraged to provide the conditions which allow non-executive directors to contribute fully to boardroom debate.

Pro Ned's role is clear: we will continue to provide guidance on practice, roles and responsibilities; we will continue to provide the most comprehensive client-driven register and search facility in the UK; and we will continue to promote the benefits of appointing independent non-executive directors through an open and respected process.

Colin St Johnston,
managing director,
Pro Ned,
1 Kingsway,
London WC2B 6XF

Survival of the Travelcard after bus deregulation

From Mr Michael J Parker.

Sir, I was extremely concerned to read your report (April 22) that the new chief executive of London Transport was predicting the death of the Travelcard in London once buses are deregulated.

I was responsible at London Transport for the launch of the Travelcard and the marketing of it for the first three years of its existence. I think it is useful to remember the main objectives of the Travelcard's introduction.

- to provide a period ticket that would be more economic for the commuter than paying the single journey fare every day, thereby encouraging people to pre-purchase for one week, four weeks or longer, meaning fewer transactions and hence fewer queues at booking offices as well as providing a cashflow advantage to London Transport.
- to promote public transport in off-peak hours when the Underground and buses have extra capacity. This encourages not only additional journeys, particularly in central London to destinations such as Oxford Street with the resulting benefits to retailers there, but also encourages general use of public transport when the alternative is to stay at home or use the car.

The tickets proved and still prove to be extremely popular and have done a lot to maintain public transport's market share in London (markedly different to experiences in conurbations outside London where bus deregulation has now been in place for nearly seven years).

They have resulted in a higher proportion of the population not only using public transport on a regular basis but being aware of a greater part of the public transport network than that required just for their journey to work.

If people really believe in public transport and wish to see its market share increased, then on no account should they create the conditions under which multioperator and multimodal tickets would cease to be available to the travelling public.

Michael J Parker,
head of operations,
Centro,
16 Summer Lane,
Birmingham B19 3SD

From Mr G E Hutchinson.

Sir, Your transport correspondent recently reported on the proceedings of the cross-party Commons transport committee indicating that the London Travelcard was likely to disappear after the planned deregulation of London bus services.

This disappointing prospect compares unfavourably with the position in Tyne and Wear where the Travelcard scheme has survived and developed since bus services were deregulated in 1986. The Travelcard scheme in Tyne and Wear is open to all 30 or so public transport operators (bus, rail, metro and ferry) and a revenue sharing arrangement is in place.

The key features of the Travelcard scheme in Tyne and Wear are that it has a commercially sound basis of sharing and that it is operated by a company owned by the local public transport operators.

G E Hutchinson,
chairman and
managing director,
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FINANCIAL TIMES
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Friday April 30 1993

A last chance for Lloyd's

JUST over a year ago, Mr David Rowland offered Lloyd's of London a blueprint for its future. Yesterday, transformed in the meantime from adviser to chairman of the insurance market, he started building. The contrast between the two occasions is striking.

Last year, Mr Rowland's tone was optimistic: Lloyd's faced serious challenges, but, provided the market cut its costs, it stood every chance of prospering.

This year, the tone is far more sombre. "Many members have been brought to the brink of financial ruin," he says. "Should membership and market not unite behind this plan then Lloyd's may have no future."

There are other noticeable contrasts. The launch of last year's Rowland report was marked by a brisk dismissal of one of its central recommendations by the Lloyd's Council. This year, the Council is gone in all but name, overshadowed by an executive team that has done away with rule by committee.

The plan itself is a far more drastic break with Lloyd's traditions than was envisaged in last year's consensus document. True, the central building blocks – lower costs, separation of market management and regulation, membership by companies as well as individuals, greater professionalism – are the same. But no one, a year ago, would have envisaged the centralisation now intended, nor the abandonment of the market's *laisser-faire* past.

"We need to protect Names from excessive exposure to catastrophic losses," says the plan – a modest sentence which breaks with a tradition that made members and their agents solely responsible for judgment of risk.

Competition case

Mr Rowland makes no bones about the scale of the change. Competition – between underwriters, between members' advisers, between managers of run-off syndicates – is an important element of his plan. But it is to be competition within limits, ruthlessly suppressed where it is seen as inappropriate.

Thus, administration of Names' affairs is to be centralised; computer processing is to be mandatory and standardised; claims handling is to be simplified and centralised; managing agents' fees are to be capped; and the weaker agencies closed or merged.

Reinsurance practices that help individual syndicates but harm the market as a whole – such as those that fed the LMX spiral in the late 1980s – are to be banned. The market cannot be left "red in tooth and claw" to do what it likes, says Mr Rowland, or it may bring itself to the brink of destruction. Members are, in effect, to be owner/franchisees, free to compete within limits, but not free to harm the nature of the franchise itself.

Breaking free

These are drastic measures. They may not be enough. As a future recipe for prosperity, they are dependent on the restored health of the international insurance industry. As a means of breaking free from the past, they hang on three unpredictable processes: the way US courts handle liability cases; the creation of a complex and potentially fragile vehicle to "ring-fence" past liabilities; and the successful resolution of the spate of lawsuits that sets Name against Name and syndicate against syndicate.

Lloyd's can do little to influence the working of the US judiciary. It is intimately involved in the other two processes, but its managers cannot guarantee success in either. Even if they carry out their part of the processes perfectly, either may be undone by the difficulty of reaching agreement between a large number of people with fiercely conflicting interests.

Names faced with acute financial pressure as a result of the market's past excesses will find a frustrating contrast between the new management's willingness to admit the errors of the old, and its inability to summon up the resources necessary to compensate for them. That is, however, both a more honest, and perhaps a more realistic, response than Lloyd's has previously offered.

Mr Rowland and his colleague Mr Peter Middleton have no illusions about the difficulty of the tasks they face. By making a break with the past, and setting themselves explicit targets and timetables, they have given themselves the right to ask for the support of the Lloyd's community in general, and the goodwill of the litigating Names in particular. If Lloyd's is to survive, that is the least they deserve.

Competition on line

IT IS something of an achievement that the European Commission has agreed on any plan to liberalise the Community's telecommunications market in the face of determined lobbying by many phone companies to protect their monopoly positions. But the particular approach agreed this week is distinctly unambitious and will saddle the European economy with an uncompetitive telecommunications sector for much longer than is necessary. There is also a risk that the plan could be further diluted, as it must receive the blessing of the Council of Ministers before it becomes law.

The Commission's plan involves the abolition from 1998 of the phone companies' monopolies to provide basic voice services, which account for about 90 per cent of the Ecu 100bn (£78.7bn) a year market. (Data communications and specialised voice services are already largely liberalised.) The five-year delay is designed to appease the monopoly phone companies and their governments, which in most cases still own them and act as spokesmen for their interests.

Pressures from producer interests also explain the dilution of proposals originally drawn up by the Commission's competition directorate. These would have allowed competition in the provision of cross-border phone services several years earlier and would have permitted infrastructure competition for those services where monopoly rights have been abolished. The latter idea would have appealed to groups such as cable television, railway and electricity companies which already have telecommunications networks of their own.

Public interest

The problem – as too often – is that producer interests have dominated and the wider public interest has been marginalised. The decision on telecommunications does not set an encouraging precedent, given that there are other monopolies – particularly gas, electricity and post services – to which the Commission should be turning its attention.

European businesses suffer a competitive disadvantage by comparison with their US and Japanese counterparts, which enjoy competitive telecommunications markets. Cross-border calls in Europe are between three and six times as expensive as calls over a similar distance in the US, while private circuit charges can be 10 or more times the price.

Domestic consumers

Nor has the monopoly served domestic customers well. In some countries, consumers can wait six months to be connected to the network and, in regions such as eastern Germany, the wait can be even longer. Unfortunately, the Commission has bought the argument that the more backward a region or country, the longer it should have to adjust to competition. The truth is that the more backward a region the more desperately it needs competition so that its infrastructure can be modernised more quickly.

It is not even clear that the system is good for the monopolists, as some – the most recent convert appears to be France Telecom – realise. The absence of competition explains why the European market is shrivelled by comparison with America's. There are 20 per cent fewer phone lines per head of population and each line is used only a third as much.

Innovations – such as freephone services, voice messaging, call-waiting and call-forwarding – are also much more common on the other side of the Atlantic. That is despite the fact that the Community has been pouring cash into research projects such as Race which are designed to encourage the development of an advanced communications infrastructure for Europe.

Europe cannot afford to continue like this. Telecoms companies obviously need time to adjust to a new competitive régime. But that is no excuse for endless delay. The companies should recognise that competitive markets are in their long-run interests. If they fail to, consumers will have to speak with louder voices. And politicians will have to liberate themselves from the grip of their monopoly lobbies and articulate the wider public interest.

A blind eye to the enemy within

Brazil's new economic plan takes a long-term approach, but are its measures tough enough, asks Christina Lamb

For once, a Brazilian government has kept its word. Six months after taking office, President Itamar Franco has unveiled an economic strategy that abandons the unsuccessful "shock therapy" of his predecessors. Out go wage and price freezes, the confiscation of bank accounts and currency devaluations; in comes a realisation that structural economic problems cannot be resolved overnight.

The plan offers the first clear indication of Mr Franco's priorities since he was propelled into office by the impeachment of the disgraced Mr Fernando Collor, and signals an awareness that Brazil is trailing behind the rest of Latin America in reforming its economy. "We have said goodbye to the era of magic solutions," said Mr Roberto Freire, the government's congressional leader, after the package was announced. "This plan tackles the problems which are strangling the economy without interfering with peoples' lives."

But positive reaction to the plan centres on what it does not do, rather than what it does. There is understandable public relief at the absence of grandiose measures, given the disruption caused by the five shock plans imposed since 1986. What has alarmed many observers is that, with prices rising by 30 per cent a month, the government has elected to make growth its priority rather than fighting inflation.

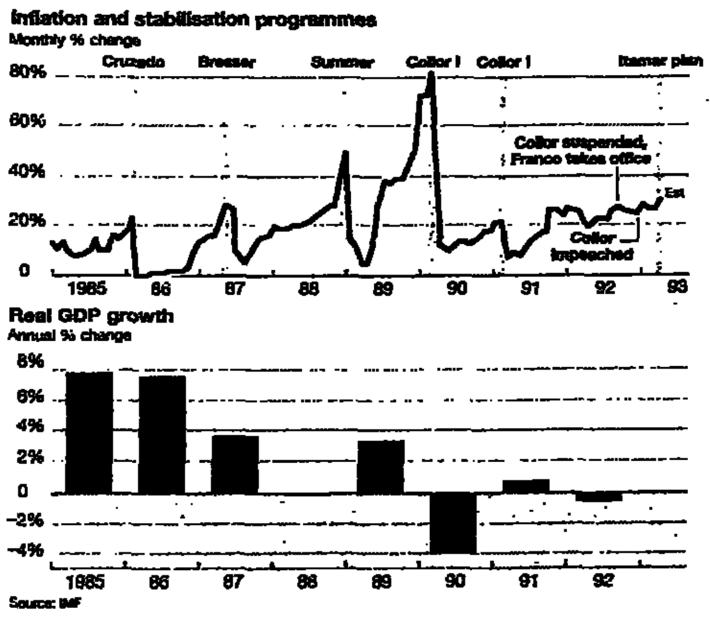
The main focus of the package is a controversial cut in interest rates and a boost in government spending to alleviate poverty and stimulate growth this year of 3.5 per cent. Mr Franco announced that his empty Treasury coffers would finance a $2.6bn housing programme, $4.8bn in farm subsidies, $590m in road repairs, and provide $8bn in hunger relief and incentives to labour-intensive industries such as car making and construction. To finance the extra spending as well as plug a $10bn hole in this year's budget, Mr Franco is relying optimistically on a new tax on bank cheques, speeding up privatisation, cutting spending by state companies and a crackdown on tax evasion.

Critics have attacked his plan for its focus on spending rather than on reducing the deficit. A former central bank governor warns: "This plan is simply more fuel to the fire of inflation. We have spending decisions on one hand and intentions of cuts on the other. Well, the road to hell is paved with good intentions."

Mr Carlos Langoni, economics professor at Getulio Vargas Institute in Rio de Janeiro, likens the idea of reducing interest rates in Brazil's current climate to "lighting a cigarette in a room full of gasoline".

Finance ministry officials retort that three years of tight monetary policy have succeeded only in shrinking per capita income by 10 per cent without reducing inflation. They say the Itamar plan is aimed primarily at re-establishing business confidence which, combined with sound budget management, will lead to a fall in inflation to monthly levels of 17 per cent by the end of this year. If the government restores its credibility through the plan, the argument runs, business will stop putting up prices defensively and the government will be able to fund its short-term $36bn domestic debt more cheaply.

Brazil: an end to shock therapy?




President Itamar Franco

But most economists question this analysis and whether it is possible to cut Brazilian inflation without shock therapy. Such measures have been discredited by the failure of former plans but this was largely because they were badly implemented and lacked accompanying fiscal reforms such as making the tax system more efficient.

Tough fiscal measures – needed to bring down the budget deficit, the main cause of inflation – are similarly absent from the Itamar package. Yet one reason why the proposals have not been more widely attacked is because inflation is seen as far less of a problem inside the country than outside. For years, Brazil has been living with levels of inflation considered by most economists to be unsustainable. For the past 18 months inflation has increased by more than 20 per cent a month; for most of the past 15 years it has been above 100 per cent a year.

Inflation has become institutionalised. Daily or monthly indexes are issued for everything from construction materials to rents. The cruzeiro has retained its monetary credibility because 95 per cent of the money supply is in bank accounts which are indexed at the daily inflation rate.

Mr Francisco Gros, ex-governor of the central bank, complains: "Brazilians do not see inflation as the enemy. I could fill a stadium within minutes for a protest against recession but I doubt I could gather half a dozen stragglers to rally against inflation."

But inflation clearly is damaging the economy. Brazilian industry retains its competitive edge largely through cheap labour and tax evasion. Equipment is outdated and investment negligible because financial speculation is more profitable. Anyone who has driven on a Brazilian road or tried to make a phone call from Rio can see that the infrastructure is collapsing. The country has the world's largest income gap between rich and poor and holds the world record for the number of deaths in traffic accidents last year.

Speaking at a recent conference in Sao Paulo, Mr Jeffrey Sachs, the Harvard economist active in Russia's economic programme, attacked Brazilian complacency. "If this isn't a crisis, I don't know what is," he said, accusing Brazil's leaders of "luxuriating in the morass" with the excuse that the country's problems are too complex. He continued: "Brazil's problems are not fundamentally different to other Latin American countries – it's just the last to get its house in order."

One result of the instability is that foreign investors are increasing reluctant to commit funds to the country. A western diplomat points out: "Brazil's high inflation is damaging its credibility as a place to invest or do business. It's the world's ninth-largest economy and fifth-biggest country but people just don't take it seriously."

A prime factor in Brazil's slow progress on economic reform is the lack of political will to push through tough measures. Instead, successive governments have used shock plans to try to combat inflation at minimal social cost. But political leaders are beginning to understand that there is no easy way out. The lack of alternatives is illustrated by Mr Franco's conversion to privatisation – a policy he opposed as vice-president.

In any case, his ability to implement reform is hindered by the 1988 constitution which allocates more than half of central government revenues to the free-spending states and municipalities. The fragmented political system, with 19 parties represented in Congress, means constant bargaining.

But the main obstacle to reform is the number of people benefiting from inflation and with no incentive to change. Important industries, such as cement and cars, gain from protection in the form of high import tariffs, allowing them to charge excessive prices for poor-quality goods. The banking sector saw record profits last year. State companies closely guard their privileges, such as access to cheap finance, and support bloated workforces.

Some observers believe that the country needs a hyperinflationary crisis similar to those suffered by Bolivia and Argentina to jolt it into action. Mr Roberto Macedo, the former economic policy chief, recalls that when feeling "desperate" about political inertia he considered provoking this by giving in to all spending demands.

The Itamar plan, while not subjecting the economy to more shock treatment, still flinches from badly needed fiscal surgery. The government will have another chance in October with a planned constitutional revision. This could change the funding balance between central and local government and could enable state employees to be sacked for the first time. But spending pressures are already mounting as campaigns get under way for next year's unprecedented simultaneous elections for president, Congress and governors.

While the Itamar plan is a welcome signal that the government has at last acknowledged the deep-seated nature of its problems, few expect the small-town senator who came to the presidency by accident to have the political muscle or vision to set Brazil on a non-inflationary path to growth. Most Brazilians have already turned their attention to 1994. The fear is that they are still hoping for a miracle.

Russian arithmetic doesn't add up

PERSONAL VIEW

Now that President Boris Yeltsin has survived the political battle, the focus shifts back to the economy. Can Russia really stop printing money and control inflation? One might think that, with the western aid already promised, it should be easy. But the arithmetic shows otherwise. That is why the US is urging the other Group of Seven industrial nations to support an additional $4bn privatisation fund. The proposal will be discussed when G7 finance ministers meet in Washington this week.

Without this extra money Russian industry can only be restructured with printed roubles. And that would ruin everything.

Let us examine the arithmetic. The government is pledged to reduce inflation to 5 per cent a month by Christmas (compared with 25 per cent a month since last September). This means a massive cut in the growth of central bank credit. Even if the government's share of this credit is limited to 5 per cent of the national income, and even with all the aid already promised, enterprises will be able to borrow very little. In fact they will be unable to borrow even enough to maintain the real value of their working bank balances. There would be no finance for investment or budgetary costs of restructuring.

That would defeat the objective of the exercise. But, more important, it would make the government's whole disinflation programme politically infeasible.

What is needed is a two-handed approach. There *should* be a sharp tightening of central bank credit, including what goes to the commercial banks. This will apply hard budget constraints to enterprises, and will stop them borrowing to pay wage increases and to finance unproductive labour. It will sharply reduce obsolete lines of production.

But at the same time there *must* be a source of finance for new lines of production and to cover the social costs of closures. Enterprise loans should be made only to privatised (or privatising) enterprises that produce viable business plans.

For such plans there is currently no source of long-term finance; most loans are for six months or less. And there could be no domestic source of investment finance that is not inflationary, because profits get squeezed during a stabilisation programme.

So substantial money for restructuring should come from abroad.

The government is pledged to reduce inflation from 25 per cent a month to 5 per cent by Christmas

Though some oil loans are in the pipeline along with a few other western export credits for industrial buyers, the industrial sector as a whole will on present plans get no money beyond what is needed to protect its working capital.

That is why the US government has had the vision to propose, at Russia's request, a $4bn privatisation fund. It would have three main, closely related parts. The first would be a large financing facility under joint western-Russian control, to respond to requests coming from enterprises, regardless of sector, and using western criteria of risk appraisal.

The only criterion should be the likely profitability of the project, and lending would be step-by-step for specific expenditures, with later tranches depending on adequate performance.

If the lending agency is to approve a project, it must receive an intelligible business plan. The agency would have to specify the form in which such plans were to be drawn up. But to produce such plans the enterprises will need independent business advice.

This is the second critical need in Russia. Many enterprises make promising products for which they could find foreign markets as domestic markets collapse. But they have no marketing skills and often no idea who to contact in the west. If there is not to be a devastating collapse in the industrial sector, these enterprises desperately need advice.

Training is also vital. Russia desperately needs workers trained in commercial skills that were totally lacking under communism. Almost a third of the workforce needs to be retrained.

The third need is for money to cover the budgetary costs of restructuring. Adequate severence is vital, and housing and healthcare formerly paid for by enterprises will have to moved on to the budget.

Thus the concept of the fund is an integrated whole. Business plans are no good without money, and money is no good without sound business plans. And both will fail if the government cannot provide a sound social basis for reform.

The whole of the west should endorse this plan, and do it now. The World Bank is not short of money and the US government has offered to put up $500m. Why delay agreement till the Tokyo summit in July?

Richard Layard

The author is director of the Centre for Economic Performance at London School of Economics and an adviser to the Russian government

OBSERVER

Who will turn on the gas?

■ In the hunt for a successor to chairman Bob Evans, British Gas seems prepared to look beyond a deep-in-the-pipe gas chap to complement chief executive Cedric Brown who is settling down as an effective "operations" man.

Lord Walker, a non-executive director likely to be influential in the search, is indeed reputed to be angling for it himself, but, given the controversy over privatisation on his watch as energy secretary, that would not be an inspired solution.

What is needed is an outsider who can tackle a bureaucratic giant and, maybe, preside over its break-up. Evans, who joined the company in 1950, was never likely to turn the company on its head.

Sir Peter Holmes retires from Shell shortly – and oil men have been considered before. David Simon is thought to have been approached for the chairmanship when Sir Denis Rooke left; later, of course, he took charge of BP on the ousting of Bob Horton. (Now there's a terrifying thought for the board; Horton is, after all, distinctly under-employed heading Railtrack.)

But a completely fresh mind is really what is needed. No doubt a blue-eyed boy like Sir Christopher Hogg would be hard to persuade. But how about Sir Denys Henderson? Or perhaps BT chairman Iain Vallance fancies a change of watchdog? Since leaving British Steel, Sir Bob Scholey hasn't picked up anything that would stand in the way.

Finally, who says the gamekeeper won't turn poacher? Sir James McKinnon, whose views on Evans were warmly reciprocated, retires from Ofgas in September.

Meanwhile, the Ofgas boss is believed to favour a woman as his own successor – on the quaint theory that most gas consumers are female – given that they do the cooking, pay the bills and write the complaining letters. Sally Hunt, director of economic consultancy Nera was on the list for the Oftel job following Sir Bryan Carsberg, so perhaps someone will ring her.

Switched off

■ Further unhealthy evidence that the great debate about the BBC occasions little more than a courteous yawn. Conservative party Central Office had been planning to hold a conference on the future of the corporation yesterday; John Birt was down to speak. But it was cancelled "due to lack of interest".

Out spokesman

■ It seems that the gravitas of foreign secretary Douglas Hurd will no longer be balanced around the world by the urbanity of his spokesman Francis Cornish, whose humorous as well as authoritative daily briefings have been like manna to diplomatic correspondents.

'We're thieving our way out of the recession'

Observer hears he is to be British trade commissioner in Hong Kong – a job in which he'll report to London, rather than to governor Chris Patten, and represent Britain's as distinct from the HK government's interests.

What's more, the office Cornish will head is set to be the core of Britain's future diplomatic representation in Hong Kong after it reverts to Chinese sovereignty in 1997.

He's replacing former ambassador to Tunisia Stephen Day, who only moved to the job last year.

Cornish is also well stocked with diplomatic skills, and not only as a result of dealing with the media. He has been a High Commissioner to Brunei and an information counsellor in Washington, not to mention an assistant private secretary to the Prince of Wales.

Singular rival

■ Wheeling in from the past comes former British Leyland whizz-kid Ian McKinnon, now running Alcan Specialities' aerospace division in Birmingham.

He doesn't aim to stay there much longer, judging by his wish to pay what must be at least £200m for Leyland Daf's truck business just when a management buy-out was apparently going ahead.

Numerous members of the rival team of course used to work for McKinnon. While he says he'd like them to do so again, they were lukewarm about same yesterday after already agreeing outline terms for the buy-out with the receivers, Arthur Andersen.

Despite McKinnon's promise to equal or better his rivals' offer, the receiver may prefer a bird i' th'and – as they say in Lancashire – to two in t'bush. Aberdonian engineer McKinnon also apparently has some way to go to finalise the financing.

Still, his cv doesn't look bad. After rising rapidly to run Leyland Trucks throughout the UK, he led the management buy-out of Leyland Bus once the trucks business had gone to Daf. He then sold out very profitably to Volvo in 1987 after turning round the bus operation. At only 46, he is clearly champing for the next challenge.

Battle standards

■ Best-sellers though they're unlikely to be, the full texts of the latest British accounting standards are a hot topic for publishers struggling, on grounds of both price and quality, to take control of the documents issued by the Accounting Standards Board.

One focus of the argument is the emphasis in the accountancy profession's ethical rules on the need not only to be, but to be seen to be, independent.

In which case, some ask, how much longer can the publishing arm of the Institute of Chartered Accountants in England and Wales continue printing the standards produced by the supposedly independent board, and designed to cover all of the UK?

No escape

■ Whether the Financial Times readers who've asked are relieved, alarmed or merely joking, Observer can confirm that it is *not* about to be sold to the Guardian. Nor has it ever been owned by Lonrho, let alone Tiny Rowland.

Although a slice of the transfer fee would be welcome, the object of the transaction must be some lesser font of wisdom graced by the same handle.

FINANCIAL TIMES
Friday April 30 1993

West split over military intervention in Bosnia

By Lionel Barber in Brussels, Philip Stephens in London and Laura Silber in Belgrade

WESTERN governments yesterday struggled to maintain a united front on proposals for outside military intervention in Bosnia, amid growing reports of disagreements over what option should be chosen.

A senior Nato official said yesterday the chances of decisive western military intervention in Bosnia were fading. The official blamed European opposition to the use of force which had proved "highly influential" with the Clinton administration and closed military options for dealing with Serbian aggression.

The failure to intervene decisively at an earlier stage in the Bosnian crisis means the Vance-Owen peace plan sponsored by the European Community and the United Nations is "highly unlikely ever to come into being", the official said.

This gloomy assessment follows a week in which EC foreign ministers expressed strong reservations about military intervention and defence chiefs on both sides of the Atlantic went public with their concerns about using force without clear-cut goals.

In Washington, President Bill Clinton is struggling to reach a consensus among his own advisers *on US action to force the Bosnian Serbs* to sign the Vance-Owen plan. A decision is expected in the next few days.

Britain, however, yesterday indicated it was ready to back a US ultimatum threatening air strikes against Serbian forces in Bosnia if the US administration agreed to maintain the international arms embargo.

Mr Warren Christopher, US secretary of state, is expected to travel to European capitals next week to consult US allies and discuss the plan Mr Clinton chooses for Bosnia.

Neither British nor US officials believe that an international conference on Bosnia, as proposed yesterday by Mr Boris Yeltsin, the Russian president, can be reconvened as early as next week. To be successful, it would have to be carefully prepared, the British Foreign Office said.

As a House of Commons debate revealed intense concern that Britain risks being dragged further into the Bosnian conflict, Mr John Major, the prime minister, refused to rule out the option of air strikes.

But he emphasised that Britain did not see military action as a substitute for sanctions against Serbia and the eventual goal of a negotiated political settlement, and underlined his strong opposition to lifting the international arms embargo.

Against a background of threats from their paymasters in Belgrade, Bosnian Serbs yesterday announced they would reconsider an international peace plan. The speaker of the self-styled Bosnian Serb parliament said a new session would be held on May 5. The assembly rejected the peace plan on Monday.

Fierce fighting was reported on many battle fronts in Bosnia-Hercegovina. Croats were pitted against the Moslems, their former allies, in central Bosnia, Sarajevo radio reported.

Peace convert, Page 2

Taiwan's Koo Chen Fu (right) and Wang Daohan of China signing an agreement in Singapore yesterday

Yeltsin gives his reformers power to act

By John Lloyd in Moscow

MR BORIS YELTSIN, the Russian president, yesterday began to fulfil his long-delayed pledge to reconstruct the Russian state and its economy.

Claiming that victory in Sunday's referendum gave him – and no other – the moral right to act in the people's name, he started the process of adopting a new constitution and gave licence to his most radical ministers to initiate financial stabilisation.

"These reforms now have popular protection," he told a meeting of the representatives of the 89 regions, cities and republics of the Russian Federation – a line repeated by his ministers at a later cabinet meeting. Mr Sergei Shakhrai, the deputy prime minister in charge of regional policy, said after the cabinet met that "the presidency is the first institution of the new Russian state to be legitimised".

Mr Yeltsin invited regional leaders to send two delegates *each to what amounts to a constituent assembly* at the end of May or beginning of June to adopt a constitution – the draft of which he presented to them at yesterday's meeting. It proposes a presidential republic in which the regions and autonomous republics would enjoy wide independence and to which, according to Mr Shakhrai, none of the leaders gathered in the Kremlin offered any principled objection.

This method of bringing in a constitution to replace the old, amended, Soviet era law bypasses the existing parliament, which was warned yesterday by the president to "submit to the people's will or to confront the people head on".

In a sign that some of the anti-Yeltsin deputies have taken just such a lesson, Mr Andrei Golovin, head of the centrist Smena (Change) faction said yesterday: "We are legislators and cannot ignore the obvious fact that the people supported these reforms and expressed confidence in the parliament."

This followed a statement on Wednesday from Mr Nikolai Travkin, a deputy and leader of the Democratic party, to the effect that he would resign because his electors had called for the re-election of parliament.

The cabinet discussion of the first quarter's economic results was an occasion for the reformist ministers to reassert their authority. Mr Boris Fyodorov, deputy premier in charge of finance, asserted he would not pay for any new social programmes.

According to Mr Andrei Illiaronov – just named as chief adviser to Mr Victor Chernomyrdin, the prime minister – Mr Fyodorov clashed with Mr Victor Gerashchenko, the central bank chairman. Mr Geraschenko refused to accept that the issue of credits caused the high monthly inflation rate, currently between 15 and 20 per cent.

Mr Sergei Vassiliev, head of the Economic Reform Centre, confirmed that Mr Georgy Khizha, the conservative deputy premier, would be sacked soon and that there would be other changes in the cabinet.

THE LEX COLUMN

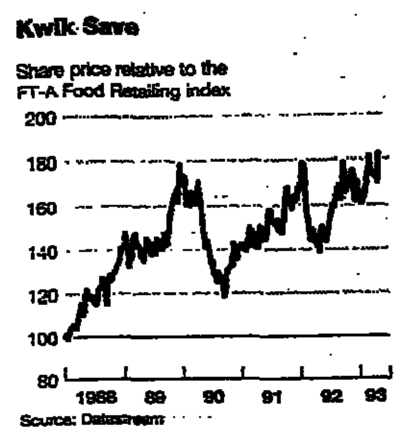
Lessons at Lloyd's

There will be no flood of corporate capital to fill the vacuum caused by Lloyd's ruinous losses. By reducing the expected underwriting capacity in the second half of the decade, its business plan recognises as much. If the incorporated capital can be achieved, though, corporate members will doubtless come forward. The overdue cost-cutting and centralisation proposed yesterday should give underwriters a better chance of delivering on that score.

But Lloyd's cannot hope to attract *much capital of any variety* until past pollution and liability risks have been ring-fenced. That will entail a full audit of liabilities and reserves right across the market. Tax and regulatory hurdles must then be overcome before the new *holding company* can be set up. Even then, the security of the ring-fence will turn on the unpredictable level of awards made by US courts. All but the most speculative providers of capital will take time to convince.

Insurance companies which already write international risks – using their own underwriters – may anyway see few advantages in Lloyd's membership. Selling a Lloyd's unit trust will hardly be easy against the sorry backdrop of losses and litigation. Specialist providers of risk capital and private equity funds are thus more likely sources. Most pension funds devote a small portion of their assets to such *high-risk ventures*. But, if the mistakes of the 1980s are not to be repeated, some scarcity of capital is a good thing. The ability of Lloyd's executive to ration the inflow of capital may ultimately be the most important innovation of all.

FT-SE Index: 2786.8 (-10.5)



ICI

That ICI is faring better than its European competitors is due in large part to the devaluation of sterling. Yesterday's first-quarter figures benefit to the tune of £50m from improved competitiveness and the translation of overseas earnings at a favourable rate. ICI's policy of buying currency forward should help earnings later this year even if sterling appreciates. By this time next year, though, exchange rates could be working against it. Firmer prices seen in bulk chemicals might also evaporate if customers destock through the summer and three months of strong sales in pharmaceuticals does not constitute a trend.

The cautious tone of the chairman's statement and dire results from DSM and BASF yesterday should stop the bulls getting too carried away about the cyclical upside in chemicals. The Germans and Dutch are some way behind in restructuring. The benefit from ICI's 1991 *reshaping* is around £100m a quarter, with the promise of more to come from last year's exceptional charge. But with Europe in such bad shape, ICI is running to stand still.

There is little in the figures, then, to alter the valuation of the group ahead of demerger. If sentiment towards the drugs industry does not deteriorate, the grey market price for Zeneca of around 700p quoted by Salomon Brothers looks about right. At that price, the bioscience shares would yield a shade more than the market average. Institutions may demand a heavy discount to the share price in order to get Zeneca's rights issue away.

Kwik Save

Few investors have included food retailers' shares on their recent shopping lists. Since the start of the year, the sector has underperformed the market by 11 per cent. Shares have been hit by anxiety attacks about grocers' expansion plans, the proliferation of deep discounters and an increase in price pressures. Kwik Save's interim figures suggest such pessimism is overdone.

Kwik Save's 19 per cent rise in pre-tax profits on a 14 per cent sales increase hardly smacks of an industry in crisis. And, although growth will slow in the second half, Kwik Save still seems set to record earnings gains in the high teens for a while to come. The company is *adding* stores at the rate of one a week. Large areas of the country, such as Scotland, remain untouched. The lack of any price inflation in Kwik Save's sales figures certainly emphasises the tough trading environment. But Kwik Save maintained its competitiveness by improving operating efficiencies rather than sacrificing margin. The launch of cut-price No Frills own-label products offers an alternative means of suppressing fire from deep discounters.

That said, investors contemplating a return to the grocery sector are more likely to chase J. Sainsbury or Argyll. The shares of the superstore operators have been sold more aggressively and appear relatively cheaper. Such companies should also benefit more from recovery as shoppers again treat themselves to a little of what they fancy.

Tiphook

Tiphook was clearly trying to contain scepticism about the company's trading prospects *with its profits* warning. But the wholesale dumping of bad news has done little to reassure the market – as yesterday's 22 per cent fall in the share price demonstrates. While the sale of 9,500 trailers reduces the fleet during the continental recession, the management has simultaneously committed itself to a £378m order for 11,000 trailers over the next five years. It will be vindicated if markets turn up in 1980s-style. If not, Tiphook is avoiding pain today by buying more expensive pain tomorrow. With its largest competitor TIP Europe being acquired by General Electric Capital Corporation, it will face opposition from a company backed by a deep-pocketed parent.

Tiphook has high operational and financial gearing, while its interest cover is likely to fall to 1.6 times by the year end. Most of its banking covenants become operable at a cover of 1.25 times, but there are a few set at 1.5 times. The company can repay its more stringent borrowings from other cash reserves if necessary, and is increasing the proportion of unsecured loans in its debt portfolio. Yet gearing of over 300 per cent with such low cover does increase the financial risks. Investors might be more reassured if the mangement's *sunny* disposition had not proved over-optimistic in the past. By the conventional *yardsticks* of multiple and yield, the shares are cheap. With the market nervous about trading prospects, they are likely to remain so.

Talks 'have built a bridge' between China and Taiwan

By Kieran Cooke in Singapore

CHINA and Taiwan, bitter enemies for more than 40 years, yesterday signed agreements in Singapore which could mark the first tentative steps towards the resolution of one of the world's more intractable conflicts.

The agreements themselves were limited in nature. The talks were described as unofficial and were not supposed to involve any discussion of political matters.

But, as the two delegations posed for the world's media, clinked champagne glasses and repeatedly shook hands, it was hard to escape the feeling that something important had been set in train.

The delegates seemed to agree. Mr Koo Chen Fu, a multi-millionaire businessman and leader of Taiwan's delegation, said the meeting had been historic. Mr Wang Daohan, a former mayor of Shanghai and leader of the China side, said the discussions had been momentous.

"We have built a bridge between us," said Mr Koo. "No one can say we have not achieved results . . . both sides have won."

The agreements covered mostly technical matters. These included joint efforts to combat crime, the resolution of fishing disputes, judicial co-operation and cultural and scientific exchanges.

Most importantly a formal *structure for future exchanges* between the two sides was also established. With the opening up of China's economy and growing business and social ties between Taiwan and the mainland such lines of communication are urgently needed.

Both sides also talked of the deep differences between them.

Taiwan businesses have an estimated $9bn investments in China. Taiwan had come to the Singapore meeting wanting assurances from China that it would develop a legal framework for the protection of these investments. The Chinese side refused, saying existing laws were adequate. Disagreements on this issue, still unresolved, forced the meeting into a third unscheduled day.

Taiwan also became angry when China raised the question of direct shipping and air links. All contact between China and Taiwan, politically separated since the founding of the People's *Republic of China in 1949, is indirect.*

The word reunification was hardly mentioned. One delegate said that Taiwan and China had developed different systems and different ways of life.

"It's not like in Europe," he said. "Don't think there is going to be unity overnight. If it ever happens it will take years."

But at least now the two sides are not, as they were not so long ago, lobbing artillery shells at each other.

Warning on German rates

Continued from Page 1

target. But inflationary pressures had not weakened in the first months of this year, Mr Schlesinger said.

He appeared less hopeful about inflationary trends in Germany than Mr Theo Waigel, the German finance minister. Mr Waigel acknowledged that German consumer prices were rising too strongly but prospects were not bad for a deceleration in the inflation rate.

Mr Waigel also said that Germany's decision to meet the costs of higher unemployment and offset lower tax revenues by increased public borrowing would be positive for the world economy.

Lloyd's to have radical shake-up

Continued from Page 1

plan, then Lloyd's may have no future."

The report calls for a 30 per cent cut in costs at the market over the next two years, which will require the loss of 2,500 of the market's 12,000 jobs by 1995.

The proposals were widely welcomed by market professionals and received more muted support from Names' organisations.

"The plan is *not a solution to* the very serious problems at Lloyd's. But it is a well thought out strategy. There is much work to be done . . . Time will be needed," said Mr Neil Shaw, chairman of the Association of Lloyd's Members, which represents 9,000 Lloyd's Names.

It details an ambitious and complex plan to isolate billions of pounds in old asbestosis, pollution and other US liability claims from policies written before 1985 which overhang the market.

"Ring fencing" past liabilities through a new reinsurance company is designed to make the market more attractive for corporate capital, which will be invited to participate in underwriting next year.

The report says the market *should aim to achieve a return* on capital of 27 per cent for corporate capital and of 33 per cent for individual Names.

The plan also ushers in changes in management style. "We're bringing into Lloyd's simple practices of good management that have been absent for too long," said Mr Peter Middleton, chief executive. New standards for competence and professionalism are to be introduced.

A moratorium on legal action against loss-making Names unable to meet their obligations announced late last year, will be lifted at the end of this month.

Mr Christopher Stockwell, chairman of the Lloyd's Names' Association Working Party, which links groups of loss-making Names, said: "The plan is a *welcome step* into turning Lloyd's into a well-regulated and managed business. We welcome the admission that Lloyd's present problems are of its making."

Mr Rowland said Lloyd's was prepared to contribute a "modest" amount to achieve a settlement and said negotiations would continue.

World Weather

		°C	°F			°C	°F			°C	°F			°C	°F			°C	°F			°C	°F
Ajaccio	F	17	63	Boulogne	S	19	66	Frankfurt	S	25	77	Majorca	C	17	63	Oporto	C	14	57	Tenerife	C	20	68
Algiers	S	22	72	Brussels	S	23	73	Geneva	F	17	63	Malaga	F	17	63	Oslo	S	17	63	Tokyo	R	10	50
Amsterdam	S	26	79	Budapest	F	23	73	Gibraltar	F	17	63	Malta	S	19	66	Paris	S	20	68	Toronto †	S	9	48
Athens	F	21	70	Buenos Aires	F	26	78	Glasgow	S	17	63	Manila	F	35	95	Prague	S	24	75	Tunis	S	22	72
Bahrain	S	28	82	Cairo	S	31	88	Helsinki	S	13	56	Melbourne	S	16	61	Reykjavik	S	3	37	Valencia	R	11	52
Bangkok	F	36	97	Cape Town	S	19	66	Hong Kong	F	16	61	Mexico City	C	25	77	Rhodes	F	21	70	Venice	F	23	73
Barcelona	F	17	63	Caracas	C	30	86	Innsbruck	F	22	72	Miami †	C	22	72	Rio de Janeiro	F	33	91	Vienna	S	23	73
Beijing	S	21	70	Casablanca †	C	18	64	Inverness	S	14	57	Milan	C	16	61	Rome	R	14	57	Warsaw	S	24	75
Beirut	S	22	72	Chicago †	R	13	55	Islamabad	F	37	99	Montreal †	S	11	52	Salzburg	S	24	75	Washington †	S	10	50
Belfast	S	17	63	Cologne	S	25	77	Istanbul	S	18	64	Moscow	F	10	50	S'Francisco †	S	12	54	Zurich	S	20	68
Belgrade	S	22	72	Copenhagen	S	17	63	Jakarta	R	32	90	Munich	S	23	73	Seoul	R	13	55				
Berlin	S	26	79	Corfu	F	19	66	Johannesburg	F	18	64	Nairobi	F	28	82	Singapore	T	28	82				
Bermuda	C	24	75	Dallas †	C	16	61	Lisbon	F	16	61	Naples	F	16	61	Stockholm	S	16	61				
Bombay	S	32	90	Dublin	S	14	57	London	S	15	59	Nassau	C	21	70	Strasbourg	S	22	72				
Bordeaux	F	18	64	Dubrovnik	S	22	72	Los Angeles †	S	14	57	New Delhi	S	40	104	Sydney	S	20	68				
				Edinburgh	S	12	54	Luxembourg	S	21	70	New York †	S	11	52	Taipei	F	31	88				
				Faro	F	16	61	Madeira	C	18	64	Nice	R	15	59	Tangier	F	17	63				
				Florence	R	15	59	Madrid	C	13	55	Nicosia	S	23	73	Tel Aviv	S	27	81				

Temperatures at midday yesterday
† Noon GMT temperatures
C-Cloudy Dr-Drizzle
F-Fair Fg-Fog H-Hail
R-Rain S-Sunny
Sl-Sleet Sn-Snow
T-Thunder

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COMPANIES & MARKETS
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INSIDE

Olivetti expects early rise in Digital stake

Olivetti, the Italian computers and office equipment group, said Digital Equipment, the US computer company, would raise its shareholding ahead of schedule in spite of Olivetti's bleak prospects. Digital will advance to May the next step in its plan to buy almost 10 per cent of Olivetti. Page 18

UAL incurs $138m loss in quarter

UAL, parent of big US carrier United Airlines, reported a loss of $138m (£90m) for the first quarter 1993, against an underlying $108m deficit last time. United said it had agreed with Airbus, the aircraft manufacturer, to slow its delivery schedule for A-320 aircraft and to retire other aircraft on an accelerated basis. Page 20

Christiania Bank in profit

Christiania Bank, Norway's second-biggest commercial bank, reported a return to profit after several years of losses. The bank achieved a net profit of NKr209m ($31m) against a NKr66m loss in the first three months of 1992, on gains on securities, a 7 per cent reduction in costs and lower credit losses. Page 21

Barclays chairman criticised

Mr Andrew Buxton, chairman and chief executive of Barclays, drew fierce criticism, including repeated calls for his resignation, at the annual meeting of Britain's biggest bank. Page 23

Bupa seeks Eurobond cash

Bupa, Britain's biggest private healthcare group, entered the Eurobond market with a £100m, 25-year issue aimed at UK institutional investors. Mr Edward Lee, finance director, said the money would provide additional capital "so we can continue the development of our private medical insurance business". Page 22

O&Y sells stake in Home Oil

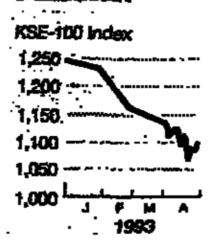
Home Oil of Calgary became the latest in a string of large Canadian companies whose troubled parents have been replaced by dispersed groups of shareholders when the 59.7 per cent stake held by Olympia & York, the crippled property developer, and Gulf Canada Resources was sold for C$396m (US$311m) to a group of underwriters. Page 19

Organic costs against the grain

The cost of switching to organic wheat production is about £800 ($1,232) a hectare. This is one of the earliest conclusions from an experiment in Essex, south-east England run by Rhône-Poulenc, Europe's biggest agrochemicals manufacturer. But Mr Listar Noble, farm manager, is determined not to jump to premature conclusions. Page 32

Pakistan enters uncertain period

Pakistan



Pakistani stocks have entered one of their most uncertain periods after last week's fall of Mr Nawaz Sharif's government. Although the Karachi stock exchange inched ahead, against earlier pessimism, speculation continues that the market will become increasingly bearish during the next three to five months. Back Page

Market Statistics

Companies in this Issue

Chief price changes yesterday

FRANKFURT (DM)							
Rises				Delta	56¾	-	½
BASF	239.4	+	4.1	Gen Motors	41⅛	-	1
Douglas Hldg	508	+	10.5	UAL	139½	-	6
Kali & Salz	133.2	+	3.2	**PARIS (FFr)**			
Falls				**Rises**			
Aachen Mch Reg	835	-	30	GTM-Entrepose	445	+	12
Colonia Konzern	940	-	30	**Falls**			
Volkswagen	326.5	-	7.3	Accor	625	-	21
NEW YORK ($)				Casino	141.4	-	6.1
Rises				Credit Local Fr	401.1	-	11.9
Amer Intl	126⅞	+	6¼	Legris	173	-	12.1
President River	32¼	+	1¾	UAP	552	-	18
Falls							
AMR	66⅝	-	1⅜				

Tokyo closed. New York prices at 12:30.

LONDON (Pence)							
Rises				Tepnel Diagn	245	+	16
Aegis	29½	+	5½	**Falls**			
Albion	100	+	9	Boots	451	-	11
Comac	35	+	5	CI Group	24	-	4
Eng Natl Dfd	250	+	25	Friendly Htls	166	-	11
Goldsmiths	45	+	4	Hopkinsons	40	-	4
ICI	1278	+	31	Kleinwort B	389	-	12
Laser-Scan	48	+	3	Tiphook	230	-	63
Learmonth & B	315	+	24	Trinity Hldgs	179	-	9
Lonrho	93½	+	5½	Warburg (SG)	643	-	15
Merivale M	49	+	10	Wellcome	722	-	13
Shiloh	114	+	11				

GM recovers to $513m in first quarter

By Martin Dickson in New York

GENERAL Motors, the US carmaker in the throes of a big restructuring, yesterday reported better-than-expected first quarter income of $513m, but acknowledged that its results had a long way to go to be satisfactory.

Earnings improved $680m from the first quarter of last year, when GM lost $167m, while sales and revenues rose 8.4 per cent from $32.3bn to $34.9bn.

A key element was less red ink in its North American automobile operations – the main source of the group's difficulties – which produced an attributable loss of $194m, against a loss of $1.2bn a year ago.

Mr Jack Smith, chief executive, said North America was on track to achieve its 1993 target of break-even before interest, taxes and accounting for retirees' health benefits. It earned $325m on this basis in the first quarter, a $1.5bn improvement.

Cashflow was also continuing to improve, with cash and marketable securities totalling $8.4bn on March 31, up from $8bn at December 31.

Detroit rivals Ford and Chrysler have also announced better-than-expected first quarter figures, helped by the gradual US economic recovery, lower rebates on American model sales and a loss of US market share by Japanese rivals.

Mr Smith said GM's improvement in North America showed the company was succeeding in implementing a lean manufacturing system, streamlining its business practices, improving productivity and executing its new global purchasing strategy. He noted that rationalisation efforts at GM's large components business were generating improved operating results.

However, he added: "We still have much to do to achieve competitive levels of cost and productivity in North America."

GM's international automotive operations earned $165m, down from $482m, due to market weakness in Europe and the start-up of manufacturing the company's new Corsa models.

Mr Richard Wagoner, chief financial officer, said the European market had been "far weaker than any of us had expected" and was likely to remain weak until a modest pick-up in 1994.

Group net income translated into earnings per share of 42 cents, compared with a loss of $33.96 a year ago when the company took a $21bn non-cash accounting charge.

RJR says profits hit by price war

By Nikki Tait in New York

RJR NABISCO, the US tobacco and food group that was the subject of a $25bn leveraged buyout in 1989, warned yesterday that profits this year from its domestic cigarette business – which accounts for more than half group operating profits – would be hit by the looming cigarette price war in the US.

Additional marketing and promotional investments would have a negative effect on the full-year 1993 results of the domestic tobacco business, "although it is still too early to determine the degree of impact", the group said.

The price war began when Philip Morris, RJR's US rival, said it would cut the price of its flagship Marlboro brand by $4 a carton, or 40 cents a packet. Earlier this week, RJR revealed plans to match this cut on its Winston brand – its leading full-priced brand, and the one that *competes most closely with Marlboro* – with other promotional activity applied to its Camel brand as well.

RJR's cuts would apply in June, and be reviewed at the end of that month.

RJR announced first-quarter profits of $163m after tax, compared with a loss of $15m in the same period of 1992. Most of the advance was due to lower interest costs, however, and operating *income increased only marginally* from $664m to $683m.

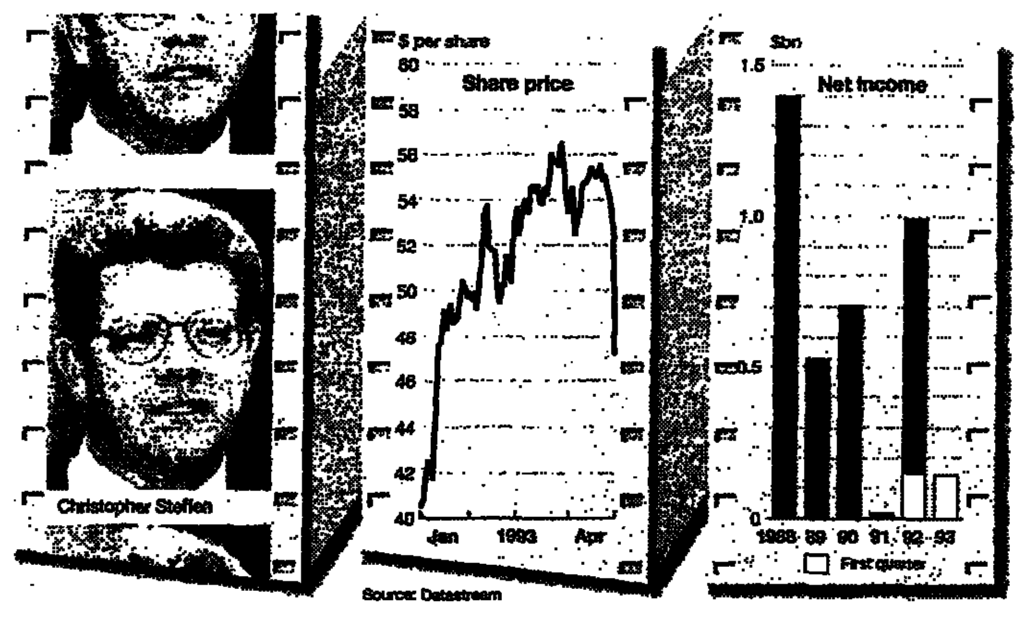
Within the operating figure, the domestic tobacco division saw slightly lower profits at $500m ($512m), while the international operations advanced from $139m to $159m. The fall in domestic tobacco profits reflected higher unit volume – up 9 per cent – but more sales came from less profitable "discount" brands.

● Mr Michael Miles, chairman of Philip Morris, told the group's annual meeting in Virginia yesterday that if the 40 cents a packet cut was not enough to regain the ground that full-priced brands have lost to discount cigarettes, "we are prepared to go beyond that if we have to protect our brand franchise". He remained upbeat about long-term prospects, and suggested that a dividend increase might be forthcoming in August. Operating cashflow is estimated to be stable at around $6.2bn for the year, and will be used to reduce debt and make limited strategic acquisitions.

Royal Brands sale, Page 18

Martin Dickson on Eastman Kodak's loss of financial officer Christopher Steffen

Counting the cost of a $2bn troubleshooter



Christopher Steffen

HE was called "the $2bn man". That was the tag attached to Mr Christopher Steffen in January when this corporate troubleshooter was named chief financial officer of Eastman Kodak, as the appointment sent the company's share price soaring, adding more than $2bn to its market capitalisation.

This Wednesday the magic went into reverse when Mr Steffen quit Kodak after just 11 weeks because of a dispute with the company's management. Wall Street knocked more than $1.5bn off the company's valuation in a *single morning*.

The stock market had regarded the appointment of Mr Steffen, a man with a reputation for turning around troubled companies, as the most positive sign that insular, conservative Kodak was at last beginning to tackle its deep-seated difficulties.

His departure therefore poses a serious credibility problem for the company's board and, in particular, for its chairman, the cautious Mr Kay Whitmore, who has headed Kodak since 1990 and spent 35 years with the company.

Are they really capable of *delivering the kind of shock therapy* which many analysts and dissident shareholders believe is necessary, and which Mr Steffen seemed likely to provide?

And if not, will yet another proud old giant of American industry, fat and complacent by success, follow the examples of International Business Machines and General Motors and undergo major boardroom bloodletting?

Admittedly, the problems facing Kodak are nowhere as severe as those at IBM or GM. However, the company's earnings and *share price record over the past decade has been lacklustre and four restructurings during that time have failed to improve matters. In an era of increasing shareholder militancy, such mediocrity is no longer enough.*

"The market thinks the wrong guy resigned," says Mr Ralph Whitworth, president of the investor activist group United Shareholders Association.

Mr Whitmore clearly got more than he bargained for when, under shareholder pressure to inject fresh blood into the business, he lured Mr Steffen from *his job as chief financial officer* of controls group Honeywell.

Mr Steffen, who played key roles in the turnround of Honeywell in 1989-92 and carmaker Chrysler in the mid-1980s, has a reputation for careful, sometimes ruthless cost-cutting and a willingness to divest poorly performing parts of a business.

One of his guiding principles is that "change has to be all-encompassing, all at once".

That evidently did not go down well at cautious Kodak, where he and Mr Whitmore seem to have disagreed over how quickly and extensively to restructure the business. The normally genial Mr Whitmore also seems to have been unhappy at the degree to which the "$2bn dollar man" was upstaging him, wanting a big say in areas normally the prerogative of the chairman and not the chief financial officer. According to Mr Whitmore, Mr Steffen left "not because we disagreed on what needs to change, but because we could not agree on the process for making that change happen".

Certainly, Mr Whitmore had begun to set change in motion well before Mr Steffen's arrival – though largely under pressure from shareholders restive at Kodak's recent history. The 104-year-old company, the largest photographic equipment company in the world, was hit in the 1980s by a slowdown in the growth of this "imaging" market, and increasingly fierce competition from companies like the innovative Fuji Photo Film of Japan and America's 3M, which is making inroads into Kodak's market share with inexpensive, store-brand film.

For years Kodak wrongly assumed that the slowdown was temporary, and planned accordingly, with a cost structure based on annual revenue growth of 6 per cent to 8 per cent. In a sharp change of stance, Mr Whitmore announced early this year that the company would plan for photographic revenue growth of around 3 per cent a year and "view the world as it is, and not as we might it to be".

He announced cutbacks in the imaging group's extremely generous research budget – much of which has been spent on digital, electronic imaging, which Kodak fears could one day supplant its plain old film and paper business.

He also ordered extra scrutiny of capital spending and eliminated 2,000 jobs – Kodak's first significant redundancies in years.

However, many analysts say the pruning needs to be more radical than this and should involve the sale of some or all of Kodak's other leading businesses, which now account for around two thirds of group sales but only *around 40 per cent of income.*

The most obvious candidate for disposal is Kodak's office copier business, which has annual sales of $2bn but is losing money.

But a more radical management could also consider selling Sterling, a pharmaceuticals company bought for $5.1bn in 1988 and folded into a joint venture with Sanofi of France two years ago; or Eastman Chemical, a commodity chemical manufacturer which analysts think could fetch more than $4bn; or the household products group Lehn and Fink.

Analysts, however, say a substantial reduction in Kodak's heavy $9bn debt burden – much of it taken on to fund the Sterling acquisition – will require some big asset sales but could leave Kodak as a much more sharply focused business, with a substantially higher share price.

One of Mr Steffen's declared aims was to cut the debt-to-capital ratio from the current 59 per cent to between 30 and 40 per cent.

Mr Whitmore has already sold *off some peripheral interests*, such as Atex, a company which makes computer systems for newspapers. In his Wednesday talk to analysts he declined to name the big divestiture being planned but declared that other businesses would also be looked at. He also said that the group's latest restructuring plans would be unveiled by September – a timeframe which may not satisfy militant shareholders looking for more urgent remedies, and who may vent their frustration at next month's annual meeting.

BASF set for further fall as first-quarter profits drop 50%

By Christopher Parkes in Frankfurt

BASF, the German chemicals group, is heading for a further *profits fall* this year after a 41 per cent slump to DM1.24bn ($781m) last time. Pre-tax earnings in the first quarter fell 50 per cent to DM238m, the company said in an interim report yesterday.

Orders on hand at the parent company at the end of March were 14 per cent lower than a year earlier, Mr Jürgen Strube, chairman, told the annual meeting. "We are no longer counting on being able to reach last year's *profits level*," he added. In 1992 the parent provided 90 per cent of group pre-tax earnings.

BASF's progress report, following news earlier this week that Hoechst's first-quarter earnings were down 28 per cent and profits at Bayer had fallen 21 per cent, compounded the gloomy mood in the German chemicals sector.

Its figures confirmed the dramatic effect of cost-cutting reforms in the German health service and the domestic recession which have exacerbated difficulties in international markets caused by over-capacity, low prices and setbacks in agricultural markets.

"Incoming orders and orders on hand are stagnating at a comparatively *low level. There is* no sign of a fundamental change for the rest of the year," the interim report said.

Cost pressures would be countered by further restructuring and concentration on the company's strongest businesses.

Approval of new investment projects was lower than last year, although spending was continuing as planned on building up the group's *plant* in Antwerp, Belgium, Schwarzheide in eastern Germany and the extension of a natural gas pipeline. Total capital *spending was down almost 7 per* cent. Group sales fell 7 per cent to DM11bn while domestic turnover at the German parent dropped 20 per cent.

The company, which shed 4,600 workers in the 12 months to the end of March, reported satisfactory developments in speciality and fine *chemicals and said it* had increased deliveries of polypropylene in Europe and of technical plastics in north America.

● Pre-tax profits at Bayer, the German chemicals company, *fell* 21.2 per cent during the first three months of the year. This was incorrectly reported in a headline in yesterday's Financial Times.

ICI advances 10% to £233m

By Maggie Urry

IMPERIAL Chemical Industries increased pre-tax profits by 10 per cent to £233m ($358m) in the first quarter of the year, *the last* time the chemicals and bioscience group will produce results on its pre-demerger basis. The *group's shares rose* 31p to 1278p despite the market's fall.

Except for the fall in sterling and cost cutting measures ICI has undertaken, group profits would have fallen. *Sir Denys* Henderson, chairman, said recovery from recession remained patchy. Mr Colin *Short, finance director, said* sterling's fall benefited pre-tax profits by about £50m while savings from the cost-cutting programme instituted in 1991 were running at around £100m a quarter.

At the trading profit level, the group achieved a 10.3 per cent advance to £279m, excluding exceptional items. But Zeneca, the bio-science business to be floated in June – if ICI share*holders approve the demerger at* next month's special meeting – raised trading profits 13.3 per cent to £204m, while the ICI side increased profits 2.7 per cent to £75m. Group turnover rose 9 per cent to £3.33bn. Zeneca's sales were up 13 per cent to £1.13bn, but exchange rates alone accounted for a 14 per cent rise, price increases added 1 per cent but disposals took off 2 per cent.

Zeneca's pharmaceutical division increased trading profits from £121m to £154m, helped by a 57 per cent sales rise from four leading drugs, but partly offset by a 10 per cent drop in sales worldwide, and a 21 per cent fall in volume, of Tenormin, Zeneca's biggest selling drug, whose US patent recently expired.

Agrochemical profits fell from £51m to £37m as uncertainty over the European agricultural *policy continued. But specialties* profits rose from £14m to £20m.

Within the ICI business paints profits fell from £22m to £18m, but there were strong advances from industrial chemicals and regional businesses, notably Australia. Materials, which includes fibres, recovered from a *loss of £49m in the second half* of 1992, to a profit of £1m, although down from £12m in the first quarter of 1992.

The group interest charge rose from £48m to £61m. A rise in the tax rate left earnings per share, excluding exceptional items, up 5.6 per cent to 20.9p.

Lex, Page 16;
ICI Australia results, Page 21

RJR offers Pta34.5bn for Royal Brands food group

By Tom Burns in Madrid and Guy de Jonquières in London

RJR NABISCO is poised to re-enter the European food sector with the Pta34.5bn ($300m) acquisition of Royal Brands, the food and agricultural division of Tabacalera, Spain's state-controlled tobacco company.

The Nabisco bid, which requires approval by the Spanish cabinet, was preferred by the Tabacalera board over a rival offer from United Biscuits of Britain and an unnamed partner.

UB would not disclose the value of its offer, but said that it was "not significantly different" from Nabisco's.

Royal Brands, which earned net profits of Pta2.7bn on Pta27bn sales last year, owns Artiach, Spain's leading biscuit producer, and Royal, the country's biggest baking powder and home-made desserts company. Nabisco is believed to have promised to maintain Carcesa, a formerly state-owned Royal Brands canning subsidiary.

The US company sold its extensive European food businesses in the late 1980s to pay off debt raised to finance a $26bn leveraged buy-out. The businesses included Spanish assets which were sold to Tabacalera and now form the core of Royal Brands.

It is unclear whether the deal presages further European acquisitions by Nabisco. Analysts believe the company's cash-flow is likely to be substantially reduced by the recent US price war in cigarettes and point out that most of the best European acquisition candidates in biscuits, Nabisco's main food business, have already been bought.

The sale will realise net capital gains for Tabacalera of Pta9bn, almost as much as the Pta10.8bn net profits that the group is forecast to declare this year, and will help cut Tabacalera's Pta45bn consolidated debt.

Wilson arm helps Amer return to the black

By Hugh Carnegy in Stockholm

AMER GROUP, the Finnish consumer goods group which includes Wilson Sporting Goods in the US, bounced back into the black last year. It reported a profit, after financing costs, of FM93m ($17.2m) for the year to the end of February, compared with a loss of FM35m in the previous year.

Net group sales of FM7bn were up only a fraction from FM6.96m, but increased sales and profitability overseas, particularly in the sporting goods division, helped strengthen the group result in spite of continued recession in the home market.

Sporting goods sales rose 18 per cent to FM2.9bn. The vast majority of this - FM2.7bn - was accounted for by Wilson, which saw sales growth of 4 per cent in dollar terms and 18 per cent in markka terms.

By contrast, Korpivaara Companies, Amer's vehicle importing division in Finland, saw sales fall by 10 per cent to FM1.67bn as new car sales in Finland declined.

Earnings per share were FM2.80 in the year to the end of February, compared with a loss of FM1.80 in 1991-1992. The dividend was unchanged at FM2 per share.

Early lift for Digital's Olivetti stake

By Haig Simonian in Ivrea

OLIVETTI, the Italian computers and office equipment group, yesterday said Digital Equipment, the US computers company, is to raise its shareholding ahead of schedule despite the Italian company's bleak financial outlook.

Digital will bring forward to May the next step in its three-stage plan to buy almost 10 per cent of Olivetti, agreed last June.

The original deal, which saw the US group buying an opening 4.03 per cent of Olivetti when the accord was signed, envisaged that the final tranche would be acquired from the pool of shareholders which control Olivetti by the end of 1994. Digital also agreed to purchase 1.89 per cent of Olivetti's stock on the stock market by the end of June this year.

Olivetti confirmed it had lost L649.9bn ($445m) last year on sales which fell by 6.8 per cent to L8,025bn. Despite persistent pressure on prices, Mr Carlo De Benedetti, chairman, told shareholders yesterday that Olivetti should break even at the operating level, before extraordinary items, this year and return to profit next year.

But he added that the "very turbulent" market conditions made precise predictions impossible.

Mr De Benedetti did not say when the group, again passing its dividend, would restore its payout to shareholders.

Sales in the first quarter of this year rose by 5.5 per cent, against the same period in 1992, with sharp volume rises for personal computers and printers. Moreover, Olivetti's most powerful personal computers had accounted for a higher proportion of sales than the previous year.

But the company gave no absolute figures for its sales and Mr De Benedetti did not clarify whether the first-quarter turnover figure had been adjusted for currency factors. Olivetti exports a large proportion of its sales, and foreign revenues are likely to be swollen this year by the sharp fall in the lira's value.

Shareholders at Olivetti's annual general meeting approved the its L903bn capital increase, comprising a rights issue and a convertible bond, proposed in March. Mr De Benedetti shed no further light on the destination of the funds, but confirmed Digital would take up its full entitlement in shares, not bonds.

Uni recapitalisation approved

By Karen Fossli in Oslo

UNI STOREBRAND, Norway's biggest insurer, is to be released from the grip of state-appointed public administrators after the acceptance by authorities of a recapitalisation plan to raise NKr4.3bn ($649m) for the troubled group.

Uni collapsed last August under the weight of NKr3.8bn in short-term debt accrued to build a NKr4.7bn, 28.3 per cent stake in Skandia Forsakrings of Sweden.

The terms of the deal are similar to those revealed on April 19 but were approved by authorities on the condition that a further NKr300m be raised through a share issue at a later date to help underpin Uni's financial base.

The deal, to be concluded in the next few months, is also conditional on the recapitalisation ensuring that Uni meets capital adequacy rules. Uni's creditors are guaranteed full reimbursement of loans outstanding. Norway's Banking, Insurance and Securities Commission (BISC) approved the plan, which calls for NKr2.8bn to be raised through the issue of NKr1.8bn worth of ordinary shares and NKr1bn worth of redeemable preferential shares.

In addition, NKr1.5bn will be raised through a bond issue. All three of the issues have been guaranteed by two consortiums of domestic and foreign companies.

Sundal Collier & Company and Fondsfinans, two domestic brokerage firms, have been given the mandate to undertake the issues and to ensure further capital is raised at a later date.

Because authorities sought to push the deal through as quickly as possible, a decision is pending on whether to spin off the Skandia holding into a wholly-owned daughter company which would purchase the shares from Uni. An estimated NKr1.4bn would be raised by the new company for the Skandia acquisition through a bond issue and subordinated loan, which would qualify as core capital. If this is decided, Uni will be given an option to buy back the Skandia shareholding.

Uni's shares are to be written down to a nominal value of NKr10 a share from NKr20.

Profits warning from Tiphook

By Angus Foster in London

SHARES in UK transport rental group Tiphook fell 22 per cent yesterday after the company issued a profits warning and said its trailer division was losing money.

Tiphook said profits in the year to April 31, due to be announced in July, would be about 20 per cent below expectations. UBS, the company's broker, cut its forecast from £75m to £55m ($84.7m). Tiphook's often volatile shares fell from 293p to 170p at one stage, before recovering to 230p.

Analysts were surprised at the scale of the downgrade, especially since Mr Robert Montague, chairman, was optimistic about the trading outlook when announcing interim profits in December.

"They misjudged their markets," one analyst said.

Most of the downgrade stemmed from the trailers division, which was hit by downturn in Germany and slower than expected recovery in the UK. Utilisation rates fell from 62 per cent to 56 per cent and analysts expect the division to make a £10m loss instead of a £5m profit.

The company is cutting its fleet from nearly 34,000 trailers to 24,000 by selling 9,532 trailers back to manufacturers.

In return, Tiphook will spend £387m buying 11,000 new trailers over the next five years.

The fleet reduction had been planned for some months and will improve the division's utilisation rates from below 60 per cent to 75 per cent. It will also delay the benefit to Tiphook of any economic recovery in Europe.

The cuts follow the bid for the company's main competitor, TIP Europe, from General Electric Capital Corp of the US. GECC plans to increase and upgrade TIP Europe's trailer fleet if its offer succeeds.

A £16m profit from the trailer disposals will be balanced by certain charges totalling £13m.

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Ferranti's US assets for sale

By Alan Friedman in New York and Tom Flannery in Lancaster, Pennsylvania

FERRANTI, the UK defence electronics company whose former US deputy chairman is now in prison for fraud and illegal arms sales, is winding up one of its US companies and seeking buyers for its remaining US assets.

In Ferranti's last financial year, ended on March 31 1992, the US businesses contributed £113.9m of total group turnover of £409m ($629m).

The US company being wound up is Ferranti International Simulation and Training.

Turnround at Nobel Industries

By Christopher Brown-Humes in Stockholm

NOBEL Industries, the Swedish chemicals group, yesterday reported a SKr50m ($6.9m) profit for the first quarter.

The result turns round a SKr24m loss struck in the same period in 1992, but does not include an estimated SKr77m payout on preference capital.

Sales rose 5.4 per cent to SKr5.50bn from SKr5.22bn, although adjusted for comparable units, the increase was 11 per cent.

Vienna airport operator ahead 36%

By Ian Rodger in Zurich

FLUGHAFEN WIEN, operator of Vienna airport, has reported a 36 per cent jump in consolidated net income last year to Sch554m ($49.6m).

However, the Austrian state-controlled group, 27 per cent of whose shares were floated in international equity markets last June, forecast a slowdown in growth this year because of the worldwide recession and intensifying competition in Europe.

Revenues last year were up 17 per cent to Sch2.86bn and operating profits jumped 46 per cent to Sch677m.

Passenger numbers rose 16.5 per cent to 6.8m last year, while flight movements rose 10.6 per cent to 107,000.

Maximum take-off weight, on which airport fees are based, rose 11.9 per cent to 3.4m tonnes.

By contrast, in the first quarter of this year, passenger numbers were up only 3.3 per cent.

Although flight movements were up by 10.1 per cent, maximum take-off weight was flat.

The group is paying an 8 per cent dividend on its Sch100 nominal shares.

Recession takes toll on Dutch chemicals group

By Ronald van de Krol in Amsterdam

DSM, the Dutch chemicals group, said net profit dwindled to Fl 6m ($3.4m) in the first quarter of 1993 from Fl 100m in the same quarter of 1992.

Recession in Europe and particularly in Germany led to a decline in demand for caprolactum, a feedstock for nylon, while industry-wide overcapacity forced down the price of ethylene and its down-stream derivatives.

Another negative factor was the strength of the guilder compared with other currencies. At the same time, financial expenses rose by Fl 5m to Fl 37m as a result of additional loans taken on in 1992.

Sales in the first quarter were down 14 per cent at Fl 2.1bn under the combined influence of reduced prices, lower sales by volume, currency effects and divestments.

DSM said it had faced the roughly the same situation in the 1993 quarter as it did in the final 1992 quarter, with a deepening recession in Europe outweighing faint signs of recovery in the US.

Hungarian travel agency tumbles to Ft1.7bn loss

By Nicholas Denton in Budapest

IBUSZ, Hungary's largest travel agency and the first east European company to go public, suffered a Ft1.745bn ($20m) consolidated loss in 1992 after breaking even the year before.

The size of the deficit caused the company's shares to slip Ft100 yesterday on the Budapest stock exchange to end the day at Ft800.

This compares with the Ft4,900 price at which Ibusz shares were offered in 1990 in the first stock market flotation in a former communist country. The fall has wiped out the bulk of the investment made by the western institutions which own most of the travel agency.

Mr Eric Bedo, newly-appointed financial director, blamed the share price collapse on the overly high expectations which had surrounded Ibusz at the time of its flotation in 1990.

Ibusz said that its core tourism business suffered from a decline in traffic last year, partly because of the war in former Yugoslavia.

The shareholders of SANDVIK AKTIEBOLAG

are hereby called to the Annual General Meeting of the Company to be held Thursday, May 13, 1993, at 2:00 p.m. in Folkets Hus, Sandviken, Sweden.

NOTIFICATION

Shareholders who wish to participate in the Meeting should notify the Board of Directors by mail addressed to Sandvik AB, Legal Affairs, S-811 81, Sandviken, Sweden, or by telephone, +46-(0) 26 26 10 81. Such notification must be received by Sandvik AB not later than 3:00 p.m. Monday, May 10, 1993. To be eligible to participate in the Meeting, shareholders must be recorded in the share register maintained by Värdepapperscentralen VPC AB (Swedish Securities Register Centre) as of Monday, May 3, 1993. Shareholders whose shares are registered in the name of a trustee must have temporarily re-registered the shares in their own name not later than May 3, 1993.

AGENDA

1. Matters which, in accordance with the Swedish Companies Act and the Articles of Association of the Company, must be considered at an Annual General Meeting, including: presentation of the Annual Report and Auditors' Report, adoption of the Parent Company's Income Statement and Balance Sheet and the consolidated accounts, discharge of the Board members and President from liability, disposition of the Company's unappropriated profits as shown in the Balance Sheet adopted by the Meeting, approval of fees to be paid to the Board of Directors and auditors, and the election of Board members and auditors.

2. Changes in the Articles of Association whereby the new wording of § 5 and § 6 shall be as follows:

§ 5
"The par value of each share shall be five (5) Swedish kronor."

§ 6
"The Company's shares may be issued in three series: Series A, Series B and Series C. Series A shares shall carry rights to one vote each and Series B and Series C shares shall carry rights to one tenth of a vote each. Series C shares shall not carry rights to dividends.

"In connection with an increase in the share capital through a new issue of shares for cash, with preferential rights for the shareholders, the shareholders have preferential rights to the new shares in proportion to the number of shares held, regardless of series. In connection with an increase in the share capital through a bonus issue of shares, holders of Series A or Series B shares are entitled to receive Series A or Series B shares, and holders of Series C shares are entitled to receive Series C shares.

"Effective September 1, 1996, without further notice, Series C shares shall be converted to Series B shares.

"Series A shares may be issued in a maximum amount of SEK 3,270 million, Series B shares in a maximum amount of SEK 2,170 million, and series C shares in a maximum amount of SEK 30 million."

3. Approval of the resolution of the Board of Directors, subject to approval of the Annual General Meeting, whereby:

- The share capital of the Company, amounting to SEK 1,366,319,400, shall be increased in a maximum amount of SEK 30,000,000, in which connection a maximum of 1,200,000 new Series C shares, par value SEK 25 each, shall be issued.

- The shares shall be subscribed by owners of shares in CTT Cutting Tool Technology B.V., who shall have the right and obligation to pay for the new shares by tendering all holdings of CTT Cutting Tool Technology B.V. shares, in which connection persons entitled to subscribe for the new shares shall have the right to subscribe for the number of shares, as described below, equal to the person's holding of shares in CTT Cutting Tool Technology B.V.

In exchange for all 150,000 shares in CTT Cutting Tool Technology B.V., persons entitled to subscribe for shares shall have the right to subscribe for 1,042,500 shares, subject to the adjustment that, if the loss in the CTT Group for the fiscal year 1992 is larger than SEK 120 million or smaller than SEK 80 million, the number of shares for which they may subscribe is to be reduced/increased by a number equal to the ratio between such deviation and 352, rounded off to the nearest whole number.

- Subscription for the new shares shall take place during the period beginning December 31, 1992 through April 15, 1993.

- The new Series C shares shall be issued at a price of SEK 30 per share.

- Payment for subscribed shares shall be made, at the time of subscription, with the shares of CTT Cutting Tool Technology B.V. that are utilized for the purpose of subscription.

- The new shares may not be oversubscribed.

Since the results of the CTT Group's operations for the fiscal year 1992 were published, the Board of Directors of Sandvik Aktiebolag has confirmed that the number of Series C shares to be issued, each with a par value of SEK 25, amounts to 1,042,500.

Subject to approval by the Annual General Meeting on May 13, 1993 of the change in the Company's Articles of Association proposed by the Board of Directors, whereby five new shares would be received for each old share held, the new issue will amount to 5,212,500 Series C shares, each with a par value of SEK 5.

Beginning May 6, 1993, copies of the Board of Directors' proposal to change the Articles of Association as well as the Board's resolution with respect to a new issue of shares, together with documents specified in Chapter 4, § 6 of the Swedish Companies Act, will be available at the offices of the Company at the address shown for notification.

DIVIDEND

The resolution of the Annual General Meeting with respect to the dividend shall specify the date on which the share register maintained by VPC (Swedish Securities Register Center) and the related list of assignees, etc. are to be closed. The Board of Directors proposes Tuesday, May 18, 1993 as the record date for payment of the dividend. If the Meeting approves this proposal, it is estimated that dividend payments will be mailed on Wednesday, May 26, 1993 to persons recorded in the share register and related list.

Sandviken, April 1993
The Board of Directors

SANDVIK

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales

1/2 hour period ending	Provisional Prices for Trading on 27.4.93: Pool purchase price £/MWh	Final Prices for Trading on 23.4.93: Pool purchase price £/MWh	Pool selling price £/MWh
0030	18.50	18.03	18.03
0100	18.50	17.69	17.29
0130	18.74	18.09	19.39
0200	26.00	36.77	42.23
0230	36.00	42.00	45.65
0300	36.00	42.00	48.51
0330	24.49	23.41	23.00
0400	18.68	18.84	18.84
0430	18.55	18.84	18.84
0500	18.55	18.39	18.39
0530	18.45	18.39	18.39
0600	18.45	18.14	18.14
0630	18.70	18.35	18.35
0700	24.14	18.44	18.44
0730	26.29	30.64	34.80
0800	29.33	25.67	29.62
0830	30.27	30.97	40.28
0900	30.34	36.00	40.29
0930	25.42	30.64	34.79
1000	26.49	27.05	31.05
1030	27.36	27.05	31.05
1100	27.95	27.05	31.05
1130	26.46	28.73	33.84
1200	30.26	28.73	33.84
1230	30.23	28.73	33.84
1300	29.28	27.05	31.03
1330	26.65	25.81	29.53
1400	25.92	25.81	29.54
1430	25.62	25.81	29.54
1500	25.62	25.81	29.54
1530	25.62	25.22	29.14
1600	24.49	25.22	29.13
1630	20.81	25.22	29.13
1700	35.00	27.90	31.88
1730	35.00	27.90	31.88
1800	35.00	28.22	32.14
1830	24.88	28.22	28.15
1900	24.88	18.61	18.61
1930	24.88	18.65	18.63
2000	24.88	25.22	29.14
2030	24.56	36.00	40.92
2100	30.50	36.00	40.22
2130	35.00	28.14	32.16
2200	35.00	25.66	29.89
2230	24.69	24.27	28.16
2300	24.27	24.27	28.21
2330	24.18	18.14	18.14
2400	23.93	18.03	18.03

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Nestlé S.A. - Cham and Vevey (Switzerland)

NESTLÉ S.A.

Invitation to a meeting of the holders of participation certificates

The holders of participation certificates are hereby invited to a Meeting to be held on Thursday, May 27, 1993 at 10.00 a.m. at the *"Palais de Beaulieu" in Lausanne* (Switzerland).

Agenda

Authorisation of the General Meeting of the Shareholders to convert the participation certificates into registered shares

Proposal of the Board of Directors:
"The General Meeting of Shareholders is authorised to resolve to convert the participation certificates into registered shares.

Following their transfer, these new shares will be subject to the restrictions set forth in Article 6 of the Articles of Association."

The explanations of the Board of Directors concerning the conversion of participation certificates into registered shares will be held at the disposal of the holders of participation certificates as from April 30, 1993, at the Registered Offices in Cham and Vevey and at the offices of the company's usual paying agents. They can also be ordered from the Secretary General of the company in CH-1800 Vevey.

Participation at the Meeting
The holders of participation certificates may obtain their admission card (with proxy) at the company's Share Transfer Office in CH-6330 Cham, or order it directly or through a bank not later than Monday, May 24, 1993, at noon. Cards will be delivered either against presentation of a certificate in the name of the holder of participation certificates to the effect that the participation certificates have been deposited with a bank, or after the participation certificates have been deposited at one of the company's registered offices. The participation certificates will in both cases remain blocked until the day following the Meeting.

Proxies: Holders of participation certificates who do not wish to attend the Meeting can be represented by another holder of participation certificates, by Nestlé S.A. or by the independent representative pursuant to section 689c of the Swiss Company Law, namely Mr. Jean-Ludovic Hartmann (attorney and notary, Boulevard de Pérolles 7, 1701 Fribourg, Switzerland). In case of representation by Nestlé S.A. the vote will be cast in accordance with the Board of Directors' proposal, unless specifically instructed otherwise.

Pursuant to article 689d of the Swiss Company Law, proxy holders of participation certificates deposited with them are requested to notify the company of the number of participation certificates represented by them in due time, but at the latest by May 27, 1993, at 9.45 a.m. Institutions subject to the Swiss Federal Law regarding Banks and Savings Banks of November 8, 1934, as well as professional asset managers qualify as proxy holders of deposited participation certificates.

Holders of participation certificates are requested to address any correspondence concerning the Meeting to the Share Transfer Office of the company in Cham, Switzerland.

Cham and Vevey, April 26, 1993
Switzerland

The Board of Directors

Union Bank of Norway

U.S. $27,000,000

Subordinated Floating Rate Notes due 2002

In accordance with the provisions of the Notes, notice is hereby given that the Rate of Interest for the three month period ending 29th July, 1993 has been fixed at 5.05% per annum. The interest accruing for such three month period will be U.S. $6,382.64 per U.S. $500,000 Note against presentation of Coupon Number 4.

Union Bank of Switzerland
London Branch Agent Bank

27th April, 1993

هكذا من الأصل

O&Y stake in Home Oil sold in public offering

By Bernard Simon in Toronto

HOME OIL of Calgary no longer has a controlling shareholder following a public offering of the combined 59.7 per cent stake held by Olympia & York, the crippled property developer, and Gulf Canada Resources.

A group of underwriters led by Burns Fry of Toronto paid C$396m (US$311m) on Wednesday evening for the 23.6m shares held by O&Y and Gulf. The shares had been re-sold to institutional and retail investors by early yesterday morning.

Burns Fry estimated that European investors had bought about 10 per cent of the shares.

Home Oil is the latest in a string of large Canadian companies whose troubled parents have been replaced by a widely dispersed group of shareholders.

Earlier this year, underwriting groups distributed blocks in MacMillan Bloedel, the west coast forestry producer, and John Labatt, the beer and entertainment company, previously held by the troubled Edper group which is controlled by Toronto's Bronfman family.

O&Y's creditors are considering similar action to dispose of the developer's controlling stakes in Gulf Canada and Abitibi-Price, the newsprint producer.

Mr Brent Fullard, director of equity markets at Burns Fry, said investors had reacted enthusiastically to the sales because of the prospect of companies being freed from a "constrained owner".

Furthermore, these companies' share prices have been depressed for some time by concern that a large block would be placed on the market. Home Oil's share price jumped by 88 cents on the Toronto stock exchange yesterday morning to C$17.63.

Home Oil earned C$6.9m last year on revenues of C$281.2m. Its main strength is in natural gas, with output averaging 214.2m cubic feet a day last year. Oil production averaged 22,800 barrels a day.

Gulf Canada, 75 per cent owned by O&Y, said its share of proceeds from the Home Oil sale, totalling C$145m, would be used to reduce debt.

The company, which carries a C$1.5bn long-term debt burden, aims to raise another C$400m this year from asset sales.

Kaiser Aluminum turns in loss

By Laurie Morse in Chicago

KAISER Aluminum, the US integrated aluminium company that is 87 per cent held by the natural resource company Maxxam, reported its first quarterly loss in six years.

Earnings were battered by the deterioration in world aluminium prices and production cuts brought on by electric power cuts at Kaiser's plants in the US Pacific northwest.

The company recorded a first quarter loss of $16.6m, or 29 cents a share, before the inclusion of special accounting charges. This compares with income of $8.4m, or 15 cents, in the first quarter of 1992.

In the latest first quarter, Kaiser took an extraordinary loss of $21.8m to retire and reschedule debt.

Kaiser's sales for the quarter were $442.6m, down from $463.7m last year. The company shipped 166,100 tonnes of primary and fabricated aluminium products, compared with 176,500 in 1992.

Largely as a result of Kaiser's loss and operating deficits in its real estate business, Maxxam said it recorded a loss of $25.9m, or $2.74 a share, in the first quarter, exclusive of special accounting charges.

That compares with net income of $900,000 or 10 cents in the first quarter of 1992. Maxxam had first quarter sales of $513.7m, down from $529.5 last year.

Separately, Asarco, the integrated US copper producer, announced it was cutting its dividend by half after reporting continuing losses. The company will reduce its June 1 dividend from 20 cents per share, to 10 cents. That is its lowest payout since 1987.

Asarco, earlier this week reported a first-quarter loss of $31m or 74 cents a share.

Mexican glass group declines

VITRO, the leading Mexican glass company, reported net profits of 197m new pesos ($65m) in the first quarter, 5.2 per cent less in real terms than the same period last year, writes Damian Fraser.

Vitro was mainly affected by higher interest rates on its peso debt, with the cost of financing more than doubling over the year from 64m to 130m new pesos.

Operating income reached 343m pesos, 7.2 per cent more in real terms more than the first quarter of 1992, while sales were up 6.6 per cent to 2.57bn pesos.

Mr Ernesto Martens, chief executive, said the state of the US glass container market affected the results of Anchor Glass, Vitro's US subsidiary while the glassware operations in Mexico were hit by imports from Asia and Europe.

Rothschild group to open office in Mexico

By Damian Fraser in Mexico City

THE ROTHSCHILD group of the UK has been given permission to open a financial advisory company in Mexico, making it the first foreign investment bank to win such authority.

The holding company of N.M. Rothschild, with the Chilean bank BICE, and Mexican partners, have been granted authorisation to open Rothschild Mexico, a financial boutique that will advise Mexican companies on corporate finance issues, such as mergers and acquisitions, privatisations, project finance, and international equity offerings.

Under Mexican law foreigners cannot own a bank or brokerage, although this will be changed when and if the North American Free Trade Agreement is implemented.

Until now foreign investment banks, like Rothschild, have had to make do with representative offices, from which they can offer off-shore the full range of corporate finance advice, but cannot be incorporated under Mexican law.

Rothschild's new status, says Mr Charles Alexander, the head of Latin America for N.M. Rothschild, would make a colossal difference.

"We will be able to compete in Mexico without worrying about the regulatory environment," he said.

The company expects to expand on-shore business significantly in Mexico as a result.

The corporate finance business in Mexico is booming, as companies seek foreign capital and foreign partners to improve competitiveness before the proposed North American Free Trade Agreement comes into force.

So far American banks – such as J.P. Morgan and Goldman Sachs – have won the lion's share of the business.

DeGroote agrees to C$23m penalty

By Bernard Simon

MR MICHAEL DeGroote, former chief executive and controlling shareholder of Laidlaw, the Canadian waste services group, has been barred from trading securities for five years and has agreed to a substantial financial payment in settlement of insider trading allegations.

The Ontario Securities Commission said Mr DeGroote, his business associate Mr Henri Herbots, and Seakist Overseas, a Channel Islands company, had agreed to pay a total of C$23m (US$18m).

The bulk of the money will be distributed among Laidlaw shareholders as compensation for losses they suffered in early 1991 when the company's shares were driven down by heavy short-selling, much of it initiated by Seakist.

In addition, Mr Keith Walker, a stockbroker employed by Midland Walwyn of Toronto, who handled Seakist's account, will surrender his broker's licence.

The insider trading allegations relate to a period shortly after Mr DeGroote stepped down at Laidlaw. Mr DeGroote provided a C$27m loan to Seakist to finance short sales of about 3m Laidlaw shares.

Within a few weeks of the short sales, Laidlaw announced a sharp drop in revenues and earnings. Seakist then covered its short positions, earning a gross profit of about C$16.5m.

The OSC alleged Mr DeGroote knew that Laidlaw's earnings would be lower than earlier forecasts, and he was aware of mounting tensions between the company and ADT, the international security systems and car auction group in which Laidlaw is the largest single shareholder.

Mr DeGroote has insisted that he had no material undisclosed information about Laidlaw. His lawyer said that the loan to Seakist was not illegal, but that Mr DeGroote "is tarnished by an error of judgment that will continue to haunt him".

Mr DeGroote has accepted the settlement to avoid a "lengthy, intensive and emotionally draining" hearing. The others involved in the case did not dispute the OSC's charges. Mr DeGroote, who now lives in Bermuda, spearheaded Laidlaw's growth from a small Ontario trucking company into one of North America's largest waste services and school bus operators.

The insider-trading allegations are not the first controversy over Mr DeGroote's departure from Laidlaw. He sold his Laidlaw shares to Canadian Pacific near the peak of the market and shortly after leaving, started a new waste-management firm.

KIO reduces holding in Sembawang

IN A further move to cover large losses in Europe and meet domestic reconstruction costs following the Gulf War, the Kuwait Investment Office (KIO) has sold a S$60m (US$37m) block of shares in the Sembawang Shipyard in Singapore, writes Kieran Cooke in Singapore.

The sale reduces the KIO's stake in Sembawang, one of Singapore's biggest shipyards, from 7.81 per cent to just under 5 per cent. Last December the KIO sold a 16 per cent stake in the Singapore Cycle & Carriage company to Jardines of Hong Kong for S$212.5m.

Analysts say that the KIO still has about S$1bn worth of shares in companies in Singapore and Malaysia, including a substantial stake in one of Singapore's most prestigious office buildings.

BNL seeks new partner and L3,000bn injection

By Robert Graham in Rome

BANCA NAZIONALE del Lavoro, the Italian Treasury-controlled bank, needs to raise L3,000bn ($2bn) in fresh capital and in the absence of additional state funds is looking for a new partner.

Mr Gianpiero Cantoni, chairman, speaking after the board approved the 1992 accounts, said the capital injection was not "to cover losses but to develop BNL's mission as a universal bank". BNL has been weakened by the scandal over $4bn in loans made by the bank's Atlanta branch to Iraq.

Last July, when it was converted into a public company with the Treasury holding a 57 per cent stake, the government estimated BNL needed L2,000bn in fresh funds. The Treasury as well as its other main shareholder, INA, the state insurance institute in line for privatisation, made it clear no public funds were available.

BNL has been looking for an outside partner, but the authorities are considering first an Italian alliance.

For 1992, the bank raised net earnings 5 per cent to L78bn. Gross profit before depreciation and provisions rose to L1,419bn from L1,204bn. As in 1991, the gap between net and gross earnings is explained by the need to set aside depreciation charges and provisions totalling L1,639bn.

Mr Cantoni said BNL was awaiting the outcome of legal developments in the US over the BNL-Atlanta affair and the trial of Mr Christopher Drogoul, former branch manager, to see how much of the $350m credit guaranteed by the CCC, the US credit guarantee body, could be recovered.

Domtar trims shortfall in first quarter

DOMTAR, the big pulp and paper and building materials group, narrowed its losses in the first quarter helped by strong timber products prices and firming fine papers and gypsum wallboard markets, writes Robert Gibbens in Montreal.

Domtar's fine paper mills continued to gain in efficiency and the lower Canadian dollar also helped.

First-quarter net loss was C$35m (US$27m), or 28 cents a share, against a loss of C$46m, or 46 cents, a year earlier. More shares were outstanding in the latest period. Sales were C$460m, up 2 per cent.

● Shell Canada reported first quarter profits of C$15m, or 13 cents a share, up from C$5m or 5 cents a year earlier, on revenues of C$1.15bn, against C$993m.

UAL registers deficit of $138m in first quarter

By Nikki Tait in New York

UAL, the parent company of *United Airlines, one of* the big three US carriers, yesterday reported a loss of $138m for the first quarter of 1993, compared with an underlying deficit of $108m in the same period of 1992.

United also said it had agreed with Airbus, the aircraft manufacturer, to slow its delivery schedule for A-320 aircraft and to retire other aircraft on an accelerated basis as the A-320s enter the fleet.

Both the first-quarter losses were stuck before accounting-related changes and extraordinary items; after these items the 1993 loss stands at $157m, against a $648m *deficit in the* previous year.

But at the operating level the airline said that there was a small improvement, with the *loss narrowing from* $168m to $121m.

Total revenues improved by 12.1 per cent to $3.33bn, while operating expenses increased only 10 per cent to $3.45bn.

Mr Stephen Wolf, UAL's *chairman, said the* group's cost reduction programme had helped the comparisons, but added: "We continued to move forward with plans to reduce further our costs by making structural changes to the company."

UAL shares took the news *badly, falling* $5⅝ to $139⅞ in early trading.

As for the Airbus deliveries, UAL said 14 *of the* 29 A-320s scheduled to be delivered in 1995 and 1996 would be rescheduled for the 1997-1998 period.

However, the 21 aircraft due to be delivered in 1993 and 1994 would be taken *as planned*.

The aircraft which are due to retired on an accelerated basis include McDonnell Douglas DC-10s, Boeing 747s, and Boeing 727s.

The group's results virtually end the *airline industry's* reporting season – in which results have been mixed.

A couple of carriers – like American Airlines and USAir – generally pleased the market, giving it grounds for believing that profitability may *be in sight*.

However, results from UAL and Delta have painted a less encouraging picture.

Stephen Wolf: cost reduction programme had helped

Intel steps up legal battle with AMD

By Louise Kehoe in San Francisco

INTEL, the leading US semiconductor *manufacturer*, has thrown more legal hurdles in the path of Advanced Micro *Devices*, a rival Silicon Valley chip maker that last week began shipments of its own version of Intel's top selling 486 microprocessor chip.

Intel said it had filed a new copyright infringement suit against *AMD, continuing* a seven-year litigation feud between the two companies over intellectual property rights.

AMD said that Intel's latest lawsuit was not unexpected.

AMD's entry into the 486 market last week followed a judge's decision setting *aside* a jury verdict favourable to Intel in a related copyright licensing dispute. The judge ruled that a new trial should be held because Intel had failed to produce documents *that could* have been relevant to AMD's case.

Intel said *yesterday it* had asked the judge to reconsider his decision.

Separately, in another legal dispute with a competitor, Intel said Cyrix, a small semiconductor company that makes clones of Intel's microprocessors, was denied a pre*liminary* injunction that would have prevented Intel from making *patent infringe*ment claims against Cyrix's customers.

Intel claimed it held patents covering the design of personal computers that run the popular Microsoft Windows operating system.

It maintained that by selling *clones of its microprocessors*, Cyrix was encouraging its customers to infringe on these patents.

Cyrix charged that Intel was harassing its customers. AMD has filed an identical suit against Intel in a Texas court. That case has yet to go to *trial, but the decision in the* Cyrix case could make potential AMD customers wary of becoming entangled in the Intel-AMD legal battle.

Intel said it was seeking royalty payments from Cyrix and *AMD customers*, rather than threatening law suits.

De Dietrich plans to pay preferential dividend

By Alice Rawsthorn in Paris

DE DIETRICH, the French engineering group, yesterday confirmed that net profits had fallen sharply from FFr130.6m in 1991 to FFr85m ($16m) in 1992 and announced plans to pay a preferential dividend to long-term investors.

The payment of preferential dividends, which is intended to encourage investors to take *long-term holdings* in companies, is a topical issue in the French corporate *sector* following the announcement earlier this week that the finance ministry was forming a working party to assess the subject.

De Dietrich is one of the first companies to declare its interest in adopting a preferential dividend scheme since the ministry's *announcement*. SEB, the industrial group, on *Wednesday said it planned to* adopt a preferential dividend policy.

The De Dietrich board has decided to hold its 1992 dividend at FFr45, following a difficult year. Turnover rose from FFr3.35bn in 1991 to FFr3.78bn in 1992, due to the addition of *Cogifer*, and operating profits increased from FFr181m to FFr193m but net profits *still* fell.

So far 1993 has been another chastening period with turnover falling by 6.5 per cent in the first quarter to FFr849.3m.

● Club Mediterranée, the *French leisure group, is on* course for a gruelling year, according to Mr Gibert Trigano, chairman, who yesterday told a shareholders' meeting that 1993 would be "very strained". Club Med returned to the black with a net profit of FFr161m in 1992 after a *FFr17.3m loss in 1991.*

US drug group buys back stock

By Karen Zagor in New York

JOHNSON & Johnson, the US healthcare group, yesterday unveiled a plan to buy back up to $500m of its outstanding common stock and raised its quarterly dividend by 13 per cent.

Mr Ralph Larsen, chairman and chief executive, said the share repurchase programme was for general corporate purposes.

"We believe that Johnson & Johnson's current stock price level reflects the uncertainty in the US marketplace for health care stocks, rather than the market's perception of our deep product pipeline and our *prospects for future growth*," he added.

On Wall Street, shares in the company were unchanged at $42⅞ at mid-session.

The news prompted Standard & Poor's, the US ratings agency, to affirm its triple-A long-term debt ratings on the company. S&P said its well-established positions in diverse health-care markets would provide the financial strength to *complete the share repurchase* programme without affecting credit quality.

The dividend increase, to 26 cents a *share from 23 cents*, represents the 29th consecutive year of higher dividends on the stock.

The company also posted net income yesterday of $503m, or 77 cents a share, for the first quarter of 1993 on sales of $3.56bn.

A year earlier, Johnson & Johnson had underlying earnings *of $452m, or 68 cents*, on sales of $3.36bn. Charges of $595m for changing *accounting* standards contributed to a 1992 first-quarter deficit of $143m, or 22 cents.

Domestic pharmaceutical sales rose 11 per cent in the latest quarter, led by recently introduced products, such as its Ortho-cept oral contraceptive and Leustatin, a drug that treats hairy cell leukaemia.

But more restrictive labelling reduced sales of Hismanal, a once-a-day *antihistamine*. Sales of Tolectin, a non-steroidal anti-inflammatory drug, also fell. The drug went off patent in 1992.

US consumer sales were flat, but international consumer sales rose 8.1 per cent.

AIG shares close to yearly peak

By Karen Zagor

SHARES in American *International Group*, the leading US insurance group, edged towards a 52-week high yesterday afternoon in a declining stock market as investors registered their satisfaction with the company's first-quarter performance.

At mid-session, the stock *was up $6¼ at $126¼ in active* trading.

For the first three months of 1993, AIG's net earnings rose 12.8 per cent to $495.9m, or $2.34 a share, compared with $439.6m, or $2.06, a year earlier.

Excluding accounting changes and realised capital gains, AIG's income rose 15.8 per cent to $452.7m, or $2.13, from $390.9m, or $1.83, last year.

Revenues advanced 6.4 per cent *to $4.64bn from $4.36bn*.

Mr Maurice Greenberg, chairman, said operating income before realised capital gains and income taxes rose 16.9 per cent in the quarter.

The company's US general *insurance operations posted* reasonable results in spite of several *catastrophes*.

AIG's general insurance business recorded pre-tax income of $351.8m, up 14.1 per cent in the quarter, excluding realised capital gains.

Lyonnaise in Westburne pledge

LYONNAISE des Eaux-Dumez is in no hurry to sell its 68 per *cent voting interest in United* Westburne, now that the North American plumbing, heating and electrical goods wholesaler is benefiting from a strengthening US economy, writes Robert Gibbens in Montreal.

"We have stated our intention to divest, but there is no *particular haste*," said Mr Guy de Panafieu, a senior Lyonnaise vice-president, after the United Westburne annual meeting.

The *Montreal-based* wholesaler hopes to become profitable again over the next 18 months. The group operates 21 divisions and 390 branches with 6,000 employees after being restructured to deal with the recession and construction slump. About 25 per cent of annual sales of more than C$2bn (US$1.57bn) are made in the US, mainly in California.

Mr de Panafieu said it would be logical for the control block in Westburne to be sold to a single shareholder rather than through a wide public distribution. But Lyonnaise would not object to a management buy-out.

Labatt urges cut in board size

JOHN LABATT, the Canadian beers group, has recommended that shareholders vote in *favour of cutting the size of its* board at the annual meeting in September. Labatt has 23 directors and believes that following Brascan's sale of its stake, the number can be reduced.

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INTERNATIONAL COMPANIES AND FINANCE

Tivoli gives Danes more than their share of fun

By Hilary Barnes in Copenhagen

THE typical shareholder in Copenhagen's Tivoli gardens, the world's oldest amusement park, owns just nine shares, the minimum number required to obtain free entry.

Now entry costs DKr35 ($5.80), whereas nine shares have a stock market value of around DKr25,000. Why do people pay so much to save so little? "It's inexplicable," said Mr J. Birger Larsen, Tivoli's finance director.

But it is not entirely so. Danes pay as an expression of their pride in, and affection for, Tivoli, a quintessentially Danish creation which this year celebrates its 150th anniversary.

The shares are among the least liquid on the Copenhagen Stock Exchange. There are just 155,000 A shares and 188,000 B shares, and they often become available only when one of the 11,300 shareholders dies.

Boosted by the expectation that this year's 150th birthday will set a turnstile record, the shares have been selling at around DKr2,800 each, for a price-earnings ratio of 39. This puts a stock market value of DKr960m on Tivoli, in contrast to net assets of DKr544m. Turnover last year was DKr253m and net profits totalled DKr24m.

One of Tivoli's attractions is that it is on a prime site in the centre of the city, bounded on one side by the main railway station and the other by the City Hall. Last year, Tivoli purchased the site from the City Council for DKr234m, financed by a new issue.

However, planning laws mean that the company can never use the site for any other purpose. Also, the city of Copenhagen has the right to reacquire the site after 100 years.

Mr Orson Nielsen, public relations director, says that Tivoli ranks as the eighth most popular amusement park in the world by the number of visitors - just over 4m in a normal year. But the year consists of a season which lasts from mid-April to mid-September.

Tivoli's popularity is based on its appeal to the Danes themselves. About 40 per cent of visitors are tourists. And its appeal? Among the firm principles on which the park is run are: no neon, no plastic and only live music.

Add 876 trees, 134,700 spring bulbs, and thousands of bedding plants, and one begins to get an inkling of the charm which Tivoli exercises. There are rollercoasters, roundabouts, fruit machines and shooting galleries; and 28 restaurants cater for almost every taste and pocket.

The open-air stage attracts many of the world's leading popular artists. There is a revue theatre and a jazz club. At the Tivoli Concert Hall, there are 134 concerts, mainly of classical music, in the course of the season.

Unlike the Disneyland parks (Walt Disney dreamt up the idea of Disneyland while on a visit to Tivoli in the early 1950s), there are no restrictions on the sale of alcohol. The Carlsberg brewing group has a controlling interest through its holding of A shares, which have 10 times the voting power of B shares.

There is considerable interest abroad in establishing amusement parks on the Tivoli formula. A subsidiary, Tivoli International, was set up a few years ago to design new parks.

So far, only one park - "a version, but not a copy" - is under construction. A DKr2.5bn, 82,000 sq. m. project in the Japanese city of Kurashiki is due to open in 1996.

Christiania Bank returns to profit in first quarter

By Karen Fossli in Oslo

CHRISTIANIA Bank, Norway's second-biggest commercial bank, yesterday reported a return to profits for the first quarter of 1993 following several years of successive losses.

The bank achieved a net profit of NKr209m ($31.2m), against a loss of NKr86m in the first three months of 1992. The improvement was attributed to gains on securities, a 7 per cent reduction in costs and lower credit losses.

The performance helped boost Christiania's capital adequacy ratio to 8.9 per cent from 5.8 per cent in the same period last year.

Mr Borger Lenth, chief executive, said there were still problems in the corporate lending sector.

"The other major worry is the declining loan volume, which has resulted from the prolonged lack of interest in investing in Norway, both among individuals and in the corporate sector," he added.

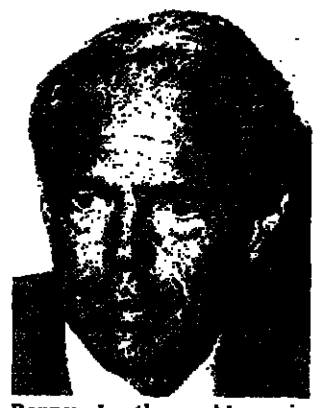
Net loan volume fell by NKr5.8bn to NKr78.85bn, while net interest income was largely unchanged at NKr779m. Non-interest income increased by NKr210m to NKr699m, with gains on securities more than doubling to NKr291m and foreign exchange gains rising by NKr15m to NKr117m.

Group operating profit, before credit losses and write-downs, increased by NKr354m to NKr783m, while losses on loans and guarantees fell by NKr61m to NKr504m. Operating expenses fell by NKr55m to NKr685m.

Christiania warned of higher risk associated with exposure to fish-farming and said this had increased general loan-loss provisions by NKr100m to NKr2.64bn.

The bank was also forced to make a specific provision of NKr260m to cover potential loan losses.

Net non-performing loans decreased by NKr200m to NKr5.7bn, while gross non-performing loans fell by NKr500m to NKr11.6bn.



Borger Lenth: problems in corporate lending sector

ICI Australia 29% ahead at half-time on static turnover

By Kevin Brown in Sydney

ICI Australia, a subsidiary of the UK chemicals group, yesterday announced a 29 per cent increase in net profit to A$37.8m (US$27.2m) after abnormal items for the six months ended March, on turnover little changed at A$1.39bn.

The group said abnormal losses of A$10.6m mainly comprised a restatement of future income tax benefits in anticipation of a proposed reduction in the rate of corporate taxation from 39 per cent to 33 per cent.

The board said the lack of sales growth reflected the lack of any worthwhile recovery in the Australian economy. The profit improvement followed higher productivity, lower costs, and the closure of loss-making businesses.

The closures included an ephedrine plant in Newcastle, an advanced ceramics factory at Rockingham in Western Australia and plants at Rhodes, NSW, all of which had been making losses.

ICI said prices for its chlor-alkali and sodium cyanide products remained at historically low levels because of world over-supply. Plastics prices also remained low and dumping continued to be "a significant problem".

The directors said the full-year result would "satisfactorily exceed" last year unless trading conditions worsened, but "significant improvement depends mainly on recovery in the Australian economy and international petrochemical prices".

The directors declared an interim dividend of 7 cents a share, up 2 cents. The board said the increase reflected the directors' intention to increase the interim dividend as a proportion of the total dividend.

Leif Hoegh earnings rise to NKr117m

By Karen Fossli

LEIF HOEGH, one of Norway's biggest shipowners, yesterday reported it had increased first-quarter net profit to NKr117m ($17.6m) from NKr97m last year and forecast that profit, after financial items, for the year as a whole would show an improvement.

Group net revenue was lifted by NKr9m to NKr414m, as operating profit rose by NKr11m to NKr101m. The company's share price rose by NKr3 to NKr94 on the Oslo bourse yesterday.

Hoegh said it expected operating profit for 1993 to emerge at around NKr350m, up from the NKr309m of 1992. The shipowner said it was satisfied with the first-quarter performance and that its financial position was strong.

● Norgeskreditt, the private sector mortgage company, said first-quarter pre-tax profit rose more than threefold to NKr81.7m from NKr26.9m, helped by higher gains on securities and an increase in net interest income.

Norgeskreditt said plans to become a commercial bank, announced earlier this year, had been approved by shareholders. It expects banking operations to commence by the end of this year.

Group first-quarter net interest income rose to NKr73.1m from NKr45.9m, as gains on bonds and securities increased to NKr34.5m from NKr0.5m. Loan losses rose to NKr11m from NKr9.3m.

● Jyske Bank, Denmark's fourth largest bank, has reported an increase in first-quarter profits before bad loan provisions to DKr363m from DKr158m a year ago.

Earnings from interest and fee income increased by 8 per cent to DKr474mn.

Aga income unchanged in first term

By Hugh Carnegy in Stockholm

AGA, the Swedish industrial gas group, yesterday reported unchanged profits after financial items in the first quarter at SKr415m ($57m) compared with the same period last year, despite a sharp rise in sales to SKr3.7bn from SKr2.8bn.

The company, with more than 80 per cent of its sales outside Sweden, said the sales figure was boosted by the devaluation of the Swedish krona last autumn and the consolidation of CEGF, a French cold storage company 98 per cent owned since the end of last year.

Although depreciation charges rose to SKr342m, from SKr235m, reflecting increased levels of investment in eastern and other parts of Europe, operating income was up almost 20 per cent, at SKr392m, thanks to the devaluation effect.

However, net financial expenses soared from SKr3m to SKr89m as a result of higher interest charges in krona terms for foreign loans and the cost of financing the purchase of CEGF.

This left profits little changed. The 1992 results were restated to take into account results from the Swedish power group Gullspangs Kraft, which is 34 per cent owned by Aga and is now treated as an associated company.

Mr Marcus Storch, chief executive, said the company was feeling the effect of economic downturn in Europe and had yet to see much improvement in the US, despite a general upturn in the American economy.

He expected an improvement for the full year over last year's SKr1.48bn profit.

Pepkor advances 17% in tough trading environment

By Philip Gawith in Johannesburg

PEPKOR, South Africa's largest mass-market retailer, overcame a difficult operating environment to record a 17 per cent increase in earnings per share for the year ended February.

With Tradegro, acquired in October 1991, included for 12 months for the first time, turnover jumped by 70 per cent to R7.8bn ($2.4bn). Operating income was 26 per cent higher at R267.3m and pre-tax profits were 30 per cent ahead at R252.2m.

Mr Christo Wiese, chairman, said the past year had been one of the most difficult ever for the South African economy. This had caused problems at Cashbuild, the building materials unit, and slowed the rate of growth of Pep, the clothing retailer. However, the Checkers supermarket chain returned to profit sooner than anticipated and Stuttafords was trading well.

Mr Wiese said the past year had been mainly one of restructuring and consolidation - combining Shoprite and Checkers, the two food operations.

He said trading conditions were unlikely to improve in the short term, but he expected "acceptable results" in the coming year.

INTERNATIONAL CAPITAL MARKETS

US Treasuries strengthen on decline in GDP growth

By Patrick Harverson in New York and Jane Fuller in London

US TREASURY prices firmed across the board yesterday morning on news of a decline in gross domestic product growth.

By midday, the benchmark 30-year government bond was up ⅝ at 102¾, yielding 6.893 per cent. At the short end of the market, the two-year note was also firmer, up ⅛ at 100¾, to yield 3.793 per cent.

Market sentiment was lifted by the Commerce Department's announcement that GDP rose by only 1.8 per cent in the first quarter of this year. Although the figure was expected to come in below the 4.7 per cent growth recorded in the previous three months, it was below analysts' forecasts, which had predicted growth of just over 2 per cent.

At first, dealers and investors hesitated to buy on the news, because they were worried that the 3.3 per cent increase in the implicit price deflator, published along with the GDP numbers, suggested that inflation was picking up pace.

However, analysts judged that the rise in the price deflator would be temporary, and by mid-morning bond prices were firmly in positive territory as investors focused on some of the other details in the GDP data, notably a 0.3 per drop in final sales and a 7.1 per cent decline in exports.

GOVERNMENT BONDS

■ THE UK government bond market continued to slide yesterday in the wake of Wednesday's disappointing gilt auction and amid general European bearishness.

The new partly-paid 7¼ per cent stock due 1998 fell by more than half a point to 49⅞. One view of the auction was that the yield ended up being too low after too heady a rally in advance. The slide was more accentuated at the longer end with falls of over a point in bonds with more than a 10-year maturity.

After the futures contract's key 104.31 support level was breached, chartists were pointing to about 102.20 as the next stopping point. By yesterday, a decline of about 4 points had been registered since a high of 107.16 at the start of April.

The decline followed a change in perception about the rate of recovery in the UK economy. Most indicators over the past fortnight have pointed to a stronger pick-up than anticipated. Another factor affecting all the European markets yesterday was switching into US Treasuries.

■ AFTER the mid-week good news on German interest rates, with the repo rate cut by 34 basis points to 7.75 per cent, the government bond market was in decline yesterday, particularly at the long end.

Profit-taking was part of the reason and, as with gilts, the futures contract breached its technical support level of 94.91.

The June bund contract opened at 95.13 and fell to 94.60, with the low coming close to the next support level of 94.53. Volume was again heavy with more than 100,000 contracts traded.

Factors weighing on the market include the queue of impending bond issues to fund swelling public debt and a strike vote by the IG Metall union over wages in the former East Germany.

■ CONCERNS about the German outlook seem to have outstripped those on post-election France. The yield spread on French 10-year bonds over German ones has reached a historically tight landmark of about 40 basis points. Only a month ago the spread was well over 60 and it was about 86 at the end of 1992.

With the French inflation rate of 2.2 per cent about half that of Germany and French public borrowing growing less quickly – albeit from a higher base – perceptions have changed. The Bank of France's ¼ point cut in its two leading interest rates yesterday had been discounted, and with the franc buoyant in spite of the cut, the currency risk is seen as diminishing.

■ IN Spain, a Pta700bn government bond auction, the second biggest for more than a year, attracted only weak foreign interest. This was reflected in the low allocation of 10-year bonds – about Pta100bn compared with Pta300bn each for the three and five-year stock – which was unhelpful to the Spanish government's drive to lengthen its debt maturity.

■ THE Italian market's long rally skidded into reverse yesterday as profits were taken. High expectations of Mr Carlo Ciampi, the new prime minister, were tempered by a realisation of the practical problems he faces.

FT FIXED INTEREST INDICES

	April 29	April 28	April 27	April 26	April 23	Year ago	High *	Low *
Govt Secs (UK)	94.59	95.42	95.77	95.32	95.72	88.57	96.04	93.28
Fixed Interest	110.95	111.77	111.75	111.70	111.62	103.45	113.83	106.67

Basis 100: Government Securities 15/10/26; Fixed Interest 1928.
* for 1993. Government Securities high since compilation: 127.40 (9/1/35), low 49.18 (3/1/75)
Fixed Interest high since compilation: 113.83 (8/3/93), low 50.53 (3/1/75)

GILT EDGED ACTIVITY

Indices*	April 28	April 27	April 26	April 23	April 22
Gilt Edged Bargains	132.8	108.9	108.1	114.3	130.8
5-Day average	116.6	116.4	119.8	121.2	120.4

* SE activity indices rebased 1974

BENCHMARK GOVERNMENT BONDS

		Coupon	Red Date	Price	Change	Yield	Week ago	Month ago
AUSTRALIA		9.500	08/03	113.6954	-0.621	7.56	7.55	7.75
BELGIUM		9.000	03/03	109.7500	-0.450	7.56	7.40	7.48
CANADA *		7.250	06/03	97.8500	+0.600	7.54	7.34	7.48
DENMARK		8.000	05/03	101.8000	-0.350	7.73	7.54	7.97
FRANCE	BTAN	8.000	05/98	104.8974	-0.217	6.80	6.80	6.85
	OAT	8.500	04/03	109.0300	-0.370	7.20	7.03	7.23
GERMANY		7.125	12/02	102.1500	-0.555	6.80	6.55	6.64
ITALY		11.500	03/03	95.3800	-0.400	12.70†	12.97	13.10
JAPAN	No 119	4.800	06/99	102.1325	-0.001	4.36	4.12	4.22
	No 145	5.500	03/02	107.3743	+0.615	4.35	4.14	4.20
NETHERLANDS		7.000	02/03	101.8100	-0.670	6.73	6.51	6.66
SPAIN		10.300	06/02	92.5593	-0.568	11.65	11.49	11.37
UK GILTS		7.250	03/98	100-03	-22/32	7.23	7.02	6.73
		8.000	06/03	99-02	-12/32	8.14	7.92	7.79
		9.000	10/08	104-09	-18/32	8.51	8.34	8.31
US TREASURY *		6.250	02/03	101-26	+8/32	6.00	5.87	5.99
		7.125	02/23	102-24	+3/32	6.90	6.78	6.88
ECU (French Govt)		8.000	04/03	102.5500	-0.420	7.63	7.57	7.56

London closing, *New York morning session. Yields: Local market standard
† Gross annual yield (including withholding tax at 12.5 per cent payable by non-residents.)
Prices: US, UK in 32nds, others in decimal. Technical Data/ATLAS Price Sources

Morgan Stanley plans issue of up to $10bn Opals

By Tracy Corrigan

MORGAN STANLEY has designed a new range of securities, offering investors exposure to country-specific equity indices through Opals – Optimised Portfolios As Listed Securities.

Morgan Stanley plans to issue up to $10bn of Opals, structured as three-year bonds, but declined to reveal how much has been sold in two weeks of marketing so far.

The securities are backed by a basket of shares, designed to replicate the index.

Instead of a coupon, the bonds pay the share dividends semi-annually. Like index futures, Opals can be used for asset allocation.

However, some institutions cannot use futures, for legal or tax reasons, or because they are not allowed under trust deeds.

Thus, although it has some characteristics of a derivative instrument, Opals are actually bonds backed by shares, and can be exchanged for the underlying shares at any time, or at maturity.

Unlike investments trusts, Opals will not trade at a discount, because the bonds can be traded in for shares.

Further, it is designed as a passive investment tool, that is, it merely replicates an index, and does not involve stock-picking.

"The product is dependent on being able to package a lot of different services – such as equity analytics, international stock lending, and global custody," said Mr Bob Tull, a director of Morgan Stanley.

Many institutional investors will prefer to use the futures markets, which offer the best liquidity.

However, index futures contracts are not available in all markets, and Opals may be a welcome alternative in some areas.

There are plans to offer Opals in market such as Norway, Italy, and New Zealand, for example.

Opals are likely to suit institutional investors wanting to make reasonably long-term investment decisions, rather than taking short-term positions.

Futures are more suitable as a trading instrument, since they can be sold short.

Earlier this year, the American Stock Exchange launched Standard & Poor's Depositary Receipts (SPDRs), known as Spiders.

The product is backed by a trust which holds the main S&P shares, allowing investors to track the performance of the S&P 500 stock index.

Bupa makes its Euromarket debut with £100m offer

By Sara Webb

BUPA, Britain's biggest private healthcare group, made its debut in the Eurobond market yesterday with a £100m, 25-year issue aimed primarily at UK institutional investors.

The deal, which is subordinated, has a coupon of 10.5 per cent and is callable at par after 20 years. Mr Edward Lea,

INTERNATIONAL BONDS

finance director at Bupa, said the money would be used to provide additional capital "so that we can continue the development of our private medical insurance business".

Bupa has seen a turnround in its financial position, reporting a 1992 pre-tax surplus of £36.5m last month, against a 1991 surplus of £1.3m and a 1990 loss of £38.2m.

Mr Lea said the deal complied with the new EC third non-life insurance directive, under which an insurance company can count long-term subordinated loan capital for solvency margin purposes. The solvency margin will rise to 50 per cent from 45 per cent as a result of the fund raising, according to lead manager Samuel Montagu.

The deal was generously priced to yield 185 basis points over the 9 per cent gilt due 2012 and the spread later tightened to 183-184 basis points. The lead manager looked at several recent subordinated debt deals for banks and building societies in order to establish a price for Bupa's first offering in the capital markets.

For example, earlier this year, the Leeds Permanent Building Society launched a £150m issue of subordinated bonds due 2018 which was priced to yield 140 basis points over the comparable gilt, and whose yield spread has narrowed to 134 basis points.

The Royal Bank of Scotland launched a £150m 20-year issue of subordinated bonds at around the same time, priced to yield 140 basis points more than the comparable UK gilt. The spread on these bonds has narrowed to around 118 basis points.

Bupa, which is a provident association, lacks a credit rating but is likely to seek one soon.

Elsewhere, British Gas tapped the Eurolira market yesterday with a L150bn, 10-year issue.

The bond, which has a 10.75 per cent coupon, was swapped into sterling to give attractive sub-Libid money (Libid is 12.5 basis points below Libor).

Deutsche Bank, which owns the lead manager BAI, said the bonds were priced at 101.71 and traded outside the full fees at 99⅝ on the bid side, blaming the weakness of the Italian market.

The Eurobond market continues to see the launch of more collared floating-rate notes which have been a regular feature of the market in recent months. New deals were launched yesterday for the Mortgage Bank of Denmark and Credit Commercial de France.

The $100m deal for Mortgage Bank of Denmark, lead managed by Kidder Peabody, pays 30 basis points below six-month Libor and has a floor of 5 per cent and a cap of 8 per cent.

The deal was swapped to provide sub-Libor funding for the borrower, which is state-owned and has a AA1/AA+ credit rating.

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book runner
US DOLLARS							
Crédit Comm. de France(a)‡	150	(a)	99.75R	May.2003	5CR	-	Goldman Sachs Intl.
Mortgage Bk. of Denmark(b)‡	100	(b)	100R	June.2005	5CR	-	Kidder Peabody Intl.
WestLB Finance Curaçao(e)‡	150	(e)	99.875R	May.2003	5CR	-	Lehman Brothers Intl.
CANADIAN DOLLARS							
Gen. Electric Cap. Canada	150	7.25	99.125R	Nov.1998	0.275R	+45 [illegible]	Wood Gundy
STERLING							
BUPA Finance(c)	100	10.5	98.220R	Dec.2018	0.625R	+185 [illegible]	Samuel Montagu
Nordic Inv. Bank(d)	25	7.75	99.90R	Aug.1998	(d)	-	Nikko Europe
ITALIAN LIRA							
British Gas Intl. Finance	150bn	10.75	101.71	May.2003	2	-	BAI (Deutsche Bk. Grp.)

Final terms and non-callable unless stated. The yield spread (over relevant government bond) at launch is supplied by the lead manager. ‡Floating rate note. #Semi-annual coupon. R: fixed re-offer price; fees are shown at the re-offer level. a) Coupon pays 6-month Libor - 0.25%. b) Coupon pays 6-month Libor - 0.30%; minimum 5%, maximum 8%. c) Subordinated issue. Callable at par in 2013. d) Fungible with outstanding £100m deal. Plus 100 days accrued interest. Fees undisclosed. e) Amount increased from $100m. Coupon pays 6-month Libor - 0.25%; minimum 5%, maximum 8%.

Argentaria improves 14% to Pta21.2bn

By Tom Burns in Madrid

ARGENTARIA, the state-owned Spanish banking corporation which is in the process of being partially privatised through a $1bn international placement, has lifted first-quarter net profits 14 per cent to Pta21.2bn ($184m).

The figures come as individual and institutional investors in Spain and institutional investors outside Spain await the allocation of shares in the close to 25 per cent of Argentaria equity that is being put on the market.

Argentaria raised financial revenues by 9.1 per cent to Pta264bn, financial margin by 5.3 per cent to Pta60.2bn and operating margin by 17.7 per cent to Pta32.1bn, in what are likely to be some of the best quarterly results among Spain's leading banks.

The subscription period for Argentaria share issue ends on May 5 and trading in its stock is due to start on May 12.

MARKET STATISTICS

FT/ISMA INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market. Latest prices at 7:00 pm on April 29

STRAIGHT BONDS: The yield is the yield to redemption of the bid-price; the amount issued is in millions of currency units. Chg. day=Change on day.
FLOATING RATE NOTES: Denominated in dollars unless otherwise indicated. Coupon shown is minimum. Spread=Margin above six-month offered rate (‡ three-month; §above mean rate) for US dollars. C.cpn=The current coupon.
CONVERTIBLE BONDS: Denominated in dollars unless otherwise indicated. Cnv. price=Nominal amount of bond per share expressed in currency of share at conversion rate fixed at issue. Prem=Percentage premium of the current effective price of acquiring shares via the bond over the most recent price of the shares.

RISES AND FALLS YESTERDAY

	Rises	Falls	Same
British Funds	0	75	2
Other Fixed Interest	0	13	2
Commercial, Industrial	224	301	874
Financial & Property	88	170	538
Oil & Gas	18	13	53
Plantations	0	0	8
Mines	50	10	76
Others	35	40	49
Totals	415	622	1,602

LONDON RECENT ISSUES

EQUITIES

Issue Price	Am'nt Paid up	Latest Renunc. Date	1993 High	1993 Low	Stock	Closing Price	+or -	Net Div.	Times Cov'd	Gross Yield	P/E Ratio
70	F.P.	-	218	193	David Brown	214	+2	W6.0	2.4	3.5	15.2
100	F.P.	-	105	100	Fleming Emerg Mkts	105		-	-	-	-
-	F.P.	-	¾	¾	¾Gaelic Res. Wts.	¾		-	-	-	-
138	F.P.	-	150	142	Hambros Ins Service	149		R5.2	2.8	4.4	14.3
195	F.P.	-	216	195	Holiday Chemical	214	+1	W3.7	2.9	2.2	19.7
-	F.P.	-	40	21	Oriental Smlr Co's Wts	40		-	-	-	-
380	F.P.	-	538	385	Quality Software Prods	491		-	-	-	23.9
135	F.P.	-	165	151	Regent Inns	151		bL5	1.6	3.7	15.1

b Figures based on prospectus estimates. H Dividend and yield based on prospectus or other official estimates for 1993. L Estimated annualised dividend, cover and p/e based on latest annual earnings. M Dividend and yield based on prospectus or other official estimates for 1993-94. R Forecast annualised dividend, cover and p/e ratio based on prospectus or other official estimates. W Pro Forma figures. ‡ Issued by way of rights. † Introduction. § Placing price. †† Reintroduction. ‡ Unlisted securities market. ♦ Issued in connection with reorganisation, merger or takeover. pm Price at a premium.

FIXED INTEREST STOCKS

RIGHTS OFFERS

TRADITIONAL OPTIONS

- First Dealings April 26
- Last Dealings May 7
- Last Declarations July 29
- For settlement August 9

3-month call rate indications are shown in Saturday editions.

Calls in: ACT, Avesco, Caverdale, Haemocell, Kewill Systems, LIT Hldgs., M.L. Labs., Ossory Ests., Racal Telecom, Ratners, Rentokil and Utd. Biscuits. Put & Call: Trafalgar House.

FT-SE ACTUARIES INDICES

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LIFFE EQUITY OPTIONS

Option		Calls Jul	Calls Oct	Calls Jan	Puts Jul	Puts Oct	Puts Jan
Allied Lyons (*566)	550	35	49	57	24	32	41
	600	14	27	38	54	64	67
ASDA (*69)	67	7½	10	-	5½	8	-
	76	4½	7	-	11	14	-
Brit. Airways (*279)	260	30	37	42	9	13	18
	280	19	27	31	17	22	27
Saint Bdrsn A (*471)	460	37	50	60	25	35	42
	500	18	32	43	48	58	64
Boots (*443)	420	45	56	59	9	15	20
	460	20	33	37	27	33	38
B.P. (*285)	280	17	24	28	13	18	22
	300	9	15	21	25	29	33
British Steel (*90)	90	9	13	15½	8	9½	12
	100	4½	8	11½	14	16½	18
Bass (*535)	500	47	60	67	11	17	27
	550	19	32	39	37	42	51
C & Wire (*678)	650	53	67	77	21	30	36
	700	24	43	50	50	58	65
Courtaulds (*596)	550	27½	43	52	27	36	43
	600	9	22½	31½	61½	67½	73

Option		Calls May	Calls Aug	Calls Nov	Puts May	Puts Aug	Puts Nov
Brit Aero (*313)	300	25	40	55	8	23	35
	330	10	29	41	24	43	48

Option		Calls Jun	Calls Sep	Calls Dec	Puts Jun	Puts Sep	Puts Dec
Glaxo (*586)	550	56	80	87	14	29	45
	600	29	52	62	36	53	70

Option		Calls Jul	Calls Oct	Calls Jan	Puts Jul	Puts Oct	Puts Jan
Unilever (*1078)	1050	65	90	103	30	33	42
	1100	35	58	73	42	57	65

Option		Calls Jul	Calls Oct	Calls Dec	Puts Jul	Puts Oct	Puts Dec
Fisons (*180)	160	17	24	26	14	21	20
	180	9	16	19	27	33	38

Option		Calls Jul	Calls Oct	Calls Feb	Puts Jul	Puts Oct	Puts Feb
Grand Met. (*407)	390	38	46	51	10	16	25
	420	18	30	36	24	30	40
Ladbroke (*161)	160	17	23	28	10½	19	24
	180	9	14	19	25	32	35
Utd. Biscuits (*409)	390	40	49	55	16	25	28
	420	24	33	40	33	40	42

FT-ACTUARIES FIXED INTEREST INDICES

PRICE INDICES

		Thu Apr 29	Day's change %	Wed Apr 28	Accrued interest	xd adj. 1993 to date
	British Government					
1	Up to 5 years (23)	126.94	-0.32	127.34	[illegible]	[illegible]
2	5-15 years (24)	145.04	-0.80	146.21	[illegible]	[illegible]
3	Over 15 years (8)	155.62	-1.10	157.35	[illegible]	[illegible]
4	Irredeemables (6)	173.47	-1.25	175.66	[illegible]	[illegible]
5	All stocks (61)	141.90	-0.70	142.90	[illegible]	[illegible]
	Index-Linked					
6	Up to 5 years (3)	182.89	-0.23	183.31	[illegible]	[illegible]
7	Over 5 years (11)	171.80	-0.55	172.63	[illegible]	[illegible]
8	All stocks (14)	171.99	-0.54	172.83	[illegible]	[illegible]
9	Debs & Loans (65)	126.33	-0.84	127.40	[illegible]	[illegible]

AVERAGE GROSS REDEMPTION YIELDS

Shareholders criticise Barclays' chairman

By John Gapper, Banking Correspondent

MR ANDREW Buxton, chairman and chief executive of Barclays, was yesterday subjected to fierce criticism, including repeated calls for his resignation, at the bank's annual meeting in London.

Mr Buxton, whose bank last year incurred a pre-tax loss of £242m, was told by several shareholders that he should take responsibility for lending mistakes that led to it making £2.5bn provisions against bad and doubtful debts.

A group of the 400 shareholders at the meeting applauded as Mr Buxton was told by one shareholder that there was "no reason to believe that someone who has failed in the past should succeed in the future".

Mr Buxton, who was appointed executive chairman in January, told shareholders that they should "look to the future" and accept that the management had put in place measures to improve risk management and earnings.

"I have been given a job to do by the board as chairman, and I think we should be getting on with it and improving the company. We have started that process," said Mr Buxton, who answered largely hostile questions for two hours.

Despite the verbal criticism, all motions proposed to the meeting were passed. Lord Camoys, Sir Nigel Mobbs and Mr Humphrey Norrington were all re-elected as directors with only a handful of shareholders voting against.

Mr Buxton said that the appointment of a new chief executive, which he announced last month after criticism from institutional shareholders, "should not be rushed, but I assure you that does not imply any lack of progress."

He was "looking forward" to the arrival of a chief executive who would be responsible for ensuring "the hands-on implementation of strategy, and the smooth running of the group" while he ensured the correct strategies.

He said one of the functions of the chief executive would be to "maximise the benefits of co-operation" among the operating divisions, including branch banking and the BZW investment bank.

Mr Buxton also announced that Barclays was setting up a pilot telephone banking service covering 10,000 customers from this summer, as well as making a number of experimental changes to its branch network and use of technology.

He faced calls for cuts in the salaries and bonuses of the directors to reflect the halving of the final dividend last year. However, he said that the level of bonuses had already fallen as a result of the loss.

"I do not think that wholesale sacking of your board and your management would be in the interests of the company", Mr Buxton told one shareholder.

Sinclair Goldsmith rights and merger

By Vanessa Houlder, Property Correspondent

SINCLAIR Goldsmith, a quoted property surveyor, is to merge with Conrad Ritblat in the latest of a series of mergers by chartered surveying practices.

The deal values Conrad Ritblat, which is headed by Mr John Ritblat, chairman of British Land, at about £11.3m. Its shareholders will receive 32.3m shares of Sinclair Goldsmith, which were suspended in February at a price of 35p.

Sinclair Goldsmith also announced a 1-for-4 rights issue to raise £2.66m. Up to a third of the cash will be used for working capital; the remainder will fund its expansion into areas such as the Midlands and the north of England.

Sinclair Goldsmith said its decision to merge stemmed from a search for ways "to improve the company's profitability and strengthen its position in the market." It incurred a pre-tax loss of £525,000 for the year to May 31 1992 and a pre-tax loss of £265,000 for the six months to November 30.

Conrad Ritblat made a pre-tax profit of £1.2m for the year to April 30 1992 and a pre-tax profit of £374,000 for the six months to October 31. British Land accounts for about a quarter of Conrad Ritblat's turnover.

After the merger and rights issue, about 49.4 per cent of the shares will be held by directors of Conrad Ritblat Sinclair Goldsmith, the name for the combined group. Mr John Ritblat will own 10.8 per cent of group.

Dealings in the shares are expected to resume on May 25. An extraordinary meeting to approve the merger will be held on May 24.

Lord Forte to retire from board

By Michael Skapinker, Leisure Industries Correspondent

FORTE, Britain's largest hotel and restaurants group, yesterday handed over formal control to a new generation with the announcement that Lord Forte, its founder, was to retire from the board together with five other long-serving directors.

The retirement of Lord Forte, 59 years after he set up his first milk bar in London's Regent Street, comes six months after he handed over the chairmanship to his son, Mr Rocco Forte. At the time, the company said that Lord Forte would remain on the board as president as his experience remained a valuable resource for the group.

The announcement that Lord Forte, 84, will now retire from the board at the group's annual meeting next month strengthens his son's claim that he is in charge of the company.

Mr Forte has appointed three well-respected non-executive directors – Sir Anthony Tennant, former chairman of Guinness, Sir Paul Girolami, chairman of Glaxo, and Mr Alan Wheatley, departing chairman of 3i – since taking over as chairman.

The retiring directors have over 200 years of service between them. They include Mr Eric Hartwell, 77, a partner in the original milk bar business and now a non-executive director. Another departing non-executive is Mr Donald Durban, who joined the Trust Houses company in 1939. Trust Houses merged with Forte in 1970. Also going is Sir David McNee, the former Metropolitan Police commissioner who has been a non-executive director for 10 years.

Two executive directors – Mr Dennis Hearn, who has been running the US business, and Mr Ian Johnston, managing director of Forte Supplies – are leaving at the end of this month.

Lord Forte: stepped down as chairman six months ago

Meyer launches £70m cash call

By Andrew Taylor, Construction Correspondent

MEYER International, the timber supplier which owns the Jewson builders' merchants chain, yesterday announced a £70m rights issue.

The money is to be used to reduce debt and to help finance working capital as the construction industry moves out of recession and demand for building material increases.

The group is offering shareholders one new share at 290p for every four already held. Following the announcement, Meyer's share price slid 20p to 348p but recovered to close only 3p down at 365p.

Mr Richard Jewson, chairman, said that it was unlikely that profits in the short term would return to previous levels. The company therefore intends to reduce the final dividend to 5.8p (12.3p) making a total for the year of 10p (16.5p).

Pre-tax profits for the 12 months to end-March this year were estimated to be not less than £14.2m, producing earnings per share of 10.2p under the new FRS 3 accounting standard.

For the previous year Meyer reported pre-tax profits of £24.6m and earnings of 19.2p. Under FRS 3 this was restated to a £19.9m deficit and losses per share of 23.3p.

Proceeds from the issue initially would be used to reduce net borrowings, which had risen to £131m – equivalent to gearing of 51 per cent on shareholders' funds of about £255m.

● **COMMENT**

Meyer has estimated that working capital needs to increase by an average of £18m for every extra £100m of turnover. It remains cautious about the speed of recovery in UK construction – commercial building remains severely depressed, but clearly needs to raise money at some stage. Given the recent rise in the group's share price, now was as good a time as any to launch a rights – particularly as other construction related companies may be queueing up to follow its example. The company has done well to reduce its overheads, but Wolsey, given its exposure to US recovery, still looks a more attractive investment for supporters of this sector.

China Trust £12m placing

CHINA Investment Trust is coming to the market via a placing of 12m shares at 100p each by James Capel, writes *Scheherazade Daneshkhu*.

The trust, the first in the UK focusing on Chinese investments, is also bidding for CST Emerging Asia Trust. Both trusts are managed by Jupiter Tyndall which owns 29.9 per cent of CST.

CST shareholders are being offered CIT shares at 100p each, equal to 95 per cent of CST's fully diluted net asset value, plus one warrant for every five CIT shares received, or they can take a full cash alternative.

CIT shareholders will also receive warrants to buy shares at 100p in the years 1994-2002.

Singer & Friedlander buys Lloyd's broker

Singer & Friedlander, the merchant banker and property group, has acquired Edgar Hamilton Group, the holding company of Edgar Hamilton, an established Lloyd's broker.

Singer paid £2.74m cash for the convertible preference share capital of EHG, which carries the right to convert into 35 per cent of the ordinary equity.

Singer will acquire the ordinary capital over the next eight years at a price determined on profits, subject to a maximum £17.4m cash.

For the 1992 year EHG returned pre-tax profits of £872,000.

Net assets at the balance sheet date were in excess of £2m.

Flat first half expected from British Gas

By Paul Cheeseright, Midlands Correspondent

BRITISH GAS yesterday foreshadowed flat results for the first half of this year when Mr Robert Evans, chairman, told some 500 shareholders that the conditions which had led to a fall in 1992 profits had continued into 1993.

Speaking at what he said may be his last annual meeting, Mr Evans said: "This year so far we have seen a continuation of the warmer weather, no respite in regulation and a further increase in competition."

Last year British Gas made £1.16bn (£1.46bn) before tax and exceptional items.

Recalling that his term as chairman ends in June 1994, Mr Evans said "steps will now be taken by the board to seek my successor" and he will retire when that person is ready to start.

Mr Evans's successor will immediately become embroiled in the effects of the Monopolies and Mergers Commission investigation into British Gas.

Its report is due in July. Mr Evans said that "whatever the outcome of the MMC inquiry British Gas will undoubtedly be involved in a major reorganisation of its business".

Mr Evans could not resist a tilt at Sir James McKinnon, the gas industry regulator, although he did not mention him by name. "Unless mechanisms are introduced to make the watchdog organisations as accountable as we are, we face the prospect of an arbitrary and unbalanced regulatory environment," he said.

CI falls 55% to £1.5m

CI Group, the Wolverhampton –based steel and engineering company, reported pre–tax profits down by 55 per cent from £3.33m to £1.51m in the year to end-January, writes Paul Cheeseright.

Earnings per share, before extraordinary items, were cut to 1.04p against 2.65p, and the final dividend is 0.175p, making a total of 1p (2.05p).

Restructuring resulted in an £1.3m extraordinary debit but above the line there were exceptional items of £1m relating to redundancy costs.

The payroll is now 19 per cent smaller than a year ago at 1,060.

Recession hit the group hard last year, reducing turnover on continuing operations from £69.4m to £64.7m.

DIVIDENDS ANNOUNCED

		Current payment	Date of payment	Corres - ponding dividend	Total for year	Total last year
CI	fin	0.175	July 1	1.225	1	2.05
Comac §	fin	1.5	-	nil	1.5	nil
Folkes	fin	0.925	July 1	1.8	1.5	2.375
Grampian TV	fin	5	July 1	4.5	6.1	5.5
Hopkinsons	fin	0.4	-	2.5	1.3	3.7
Kwik Save	int	5.4	July 1	4.7	-	16
Majedie Invs	int	2	July 2	1.25*	-	4.75
Merivale Moore	int	nil	-	1	-	1
Scot Mort Trust	fin	2.65	July 1	2.6	4	3.9
Venturi Inv Tst	fin	1.99	June 4	1.86	3.45	3.26

Dividends shown pence per share net except where otherwise stated. §USM stock. *Adjusted for scrip issue.

LEGAL NOTICES

The Insolvency Act 1986
In the High COURT OF JUSTICE IN BANKRUPTCY Number 4184 of 1992
RE: HUSSAIN SAYED HASHIM BEHBEHANI.
Previously residing at Edifice Bahia 2B, 49 Avenue Ricardo, Soriano, Marbella, Spain and various locations in the Middle East.
I, GRANT JONES, OF MORISON STONEHAM, 805 Salisbury House, 31 Finsbury Circus, London EC2M 5SQ. HEREBY GIVE NOTICE and confirm that I was duly appointed Trustee of the above estate on 31st July 1992. I further confirm that all persons having in their possession any of the effects of the Bankrupt must deliver them to me and all the debts due to the Bankrupt must be paid to me. All known creditors have been notified of my appointment.
Any other unsecured creditors of which I am not aware who have not proved their debts must submit their claims to me at the above address by 7 June 1993.
Dated this 26th day of April 1993
GRANT JONES, LL.B. ACA. MICM. MSPI
Trustee in Bankruptcy.
N.B. Any individual who has knowledge of any of the worldwide whereabouts of any of the assets of bankrupt should contact the Trustee.

ADVERTISEMENT OF APPOINTMENTS
IN THE MATTER OF AUSTFINLEAGE LIMITED
AND IN THE MATTER OF THE INSOLVENCY RULES 1986
In accordance with Rule 4.106 of the Insolvency Rules 1986 notice is hereby given that I, Kevin William Page, of Grant Thornton Byrne, 39/F Lippo Tower, Lippo Centre, 89 Queensway, Hong Kong was appointed liquidator of the above named company by the members on 31 March 1993
Dated this 1st April, 1993
Kevin William Page
Liquidator

ADVERTISEMENT OF APPOINTMENTS
IN THE MATTER OF WEST PACIFIC INDUSTRIES LIMITED
AND IN THE MATTER OF THE INSOLVENCY RULES 1986
In accordance with Rule 4.106 of the Insolvency Rules 1986 notice is hereby given that I, Kevin William Page of Grant Thornton Byrne, 39/F Lippo Tower, Lippo Centre, 89 Queensway, Hong Kong was appointed liquidator of the above named company by the members on 31 March 1993
Dated this 1st April, 1993.
Kevin William Page
Liquidator

ADVERTISEMENT OF APPOINTMENTS
IN THE MATTER OF AUSTFINCREDIT LIMITED
AND IN THE MATTER OF THE INSOLVENCY RULES 1986
In accordance with Rule 4.106 of the Insolvency Rules 1986 notice is hereby given that I, Kevin William Page of Grant Thornton Byrne, 39/F Lippo Tower, Lippo Centre, 89 Queensway, Hong Kong was appointed liquidator of the above named company by the members on 31 March 1993.
Dated this 1st April, 1993.
Kevin William Page
Liquidator

1993
First Quarter Results

UNAUDITED

(Prepared in accordance with FRS 3)

Summary

ICI Group profit before taxation in the first quarter was £233m, £21m (10%) above that for the first quarter of 1992 with higher trading profits in both ZENECA and ICI. Earnings per share before exceptional items rose 6% to 20.9p.

	First Quarter 1992	First Quarter 1993
Turnover	£3,055m	£3,330m
Profit before exceptional items and taxation	£211m	£233m
Exceptional items	£1m	–
Profit before taxation	£212m	£233m
Earnings per £1 Ordinary Share		
– before exceptional items	19.8p	20.9p
– after exceptional items	20.3p	20.9p

Throughout this Statement the term Group refers to the existing ICI Group. References to ICI mean the ICI Group excluding ZENECA.

Chairman's Comments

In announcing the results, Sir Denys Henderson, Chairman of the ICI Group, commented:

"In reviewing the year end results, I said that the signs of recovery from recession were patchy. This remains the case and I am therefore pleased to report that the Group's first quarter's pre-tax profit is up by 10% over that for the corresponding quarter of 1992. ZENECA has turned in a robust performance with trading profits from two of its businesses, Pharmaceuticals and Specialties, significantly ahead of last year. ICI has maintained its trading profit in market conditions that continue to be difficult, particularly in Continental Europe, and has benefited from the extensive programmes of self-help and cost-cutting on which it has been engaged since 1991. The Group as a whole enjoyed substantial gains from currency rates during the quarter.

While there are signs of economic recovery in some markets, these have not yet led to an improvement in volume and pressure on prices in general remains. It is too early to express any definite views regarding the prospects for the full year. However, a continuing competitive pound and the restructuring programmes will benefit both ICI and ZENECA."

New Basis for Group Segmental Reporting

The first quarter's results contained in this Statement are quoted using a new basis for segmental reporting which reflects the previously announced reorganisation of the ICI Group into ICI and ZENECA. Comparative figures have been restated to be on a consistent basis.

Comparison with First Quarter of 1992 – Before Exceptional Items

GROUP

Group turnover in the first quarter was £3,330m compared with £3,055m in 1992. The increase resulted from higher turnover in both ZENECA (+13%) and in ICI (+7%).

Trading profit before exceptional items at £279m was £26m above 1992.

ZENECA

Turnover in the first quarter was £1,131m compared with £1,002m in 1992. The sales increase resulted mainly from exchange gains (+14%) and slightly higher selling prices (+1%), offset by the impact of divestments (-2%).

Trading profit rose 13% to £204m due principally to a strong first quarter performance by Pharmaceuticals. Sales of 'Zestril', 'Diprivan', 'Zoladex' and 'Nolvadex' were in aggregate some 57% higher than equivalent sales in the first quarter of 1992, reflecting higher underlying volume growth (+33%), exchange benefits (+21%) and price increases (+3%). 'Tenormin' sales were affected in the USA by generic competition and were approximately 10% lower world-wide than for the first quarter of 1992, reflecting a reduction in underlying volumes (-21%) together with a small price reduction, partially offset by exchange gains (+12%). Agrochemicals profit of £37m was below last year's level due mainly to the uncertainties of the Common Agricultural Policy reforms reducing sales volumes in Western Europe. Elsewhere, sales indications are more positive. Specialties profit increased due to favourable exchange rates and an improved cost structure.

ICI

Turnover grew by 7% to £2,287m with increases in all businesses. The impact of favourable exchange movements (+9%) was partly offset by lower selling prices (-2%).

Trading profit increased by 3% to £75m. In Paints, trading profit was down £4m to £18m due to lower volumes in Europe and the United States. Materials trading profit was £1m compared to a profit of £12m last year, with the reduction due primarily to lower prices and volumes in European businesses which are experiencing strong competition. Trading profit in Industrial Chemicals increased by £8m to £25m in 1993 as a result of continuing cost reduction and favourable exchange rates. Regional business profits rose by £14m to £20m with improved performances in Australia and Canada.

Income from associates at £15m was £9m above 1992 and included an improved contribution from AECI Ltd.

Taxation

The tax charge for the quarter was £75m (1992 £62m) representing an effective rate of 32% on earnings before exceptional items.

Group Profit and Loss Account

The unaudited trading results of the Group for the first quarter of 1993, together with comparative figures for 1992, are set out below. **The figures have been prepared in accordance with Financial Reporting Standard 3 and comparative figures restated.**

First Quarter 1992				First Quarter 1993		
Before Exceptional Items £m	*Exceptional Items £m*	*Total* £m*		*Before Exceptional Items £m*	*Exceptional Items £m*	*Total £m*
3,055	–	3,055	**Turnover**	**3,330**	–	**3,330**
253	(22)	231	**Trading profit**	279	–	279
6	–	6	Income from associates	15	–	15
–	23	23	Profit on sale of operations	–	–	–
(48)	–	(48)	Net interest payable	(61)	–	(61)
211	1	212	**Profit before taxation**	233	–	233
(64)	2	(62)	Taxation	(75)	–	(75)
(6)	–	(6)	Attributable to minorities	(9)	–	(9)
141	3	144	**Net profit**	149	–	149
19.8p	0.5p	20.3p	Earnings per £1 Ordinary Share	**20.9p**	–	**20.9p**

**Abridged results; full statutory accounts for the year 1992, together with an unqualified audit report, have been lodged with the Registrar of Companies.*

Next Announcement

Trading results for the first half of 1993 will be announced on Thursday 29 July 1993.

IMPERIAL CHEMICAL INDUSTRIES PLC

Paper profits encourage flotation

James Buxton reports on the development of Inveresk since its management buy-out

INVERESK, the Scottish speciality paper company, the subject of a management buy-out in 1990, is coming to the market via a placing and intermediaries offer to raise £30m. The issue would value the company at over £75m.

The pathfinder prospectus will be issued next Thursday and Inveresk will join the diminished band of quoted British-owned paper companies in an industry dominated by large foreign-owned groups. Yet it believes it can not only survive but also expand, partly through acquisition, in the European speciality paper sector.

Inveresk is a famous name in British paper-making, formed after the first world war as a grouping of private mills. In 1981 it was bought by Georgia-Pacific of the US. When problems at home hit GP it co-operated in allowing Mr Stefan Key, Inveresk's managing director, to put together a management buy-out backed by Morgan Grenfell Development Capital.

The MBO brought a powerful dose of managerial energy and also allowed Inveresk to make investments, running at between £5m and £6m a year in each of the last two years, in improved capacity, which had not been possible in the later stages of GP's ownership.

After little more than a year Inveresk was able to pay back about £20m of senior debt and mezzanine financing out of improved cash flow.

Mr Key is keen to dispel the notion that the paper industry consists solely of very large companies with capital investments running to £250m per machine, exposing them to violent cyclical swings in what are, in effect, commodity markets.

"We are a major force in speciality paper making worldwide," he said. James Capel, the company's broker added in a circular that Inveresk should not be seen as "a small fish in a big sea" but rather as having a significant presence "in a number of rockpools".

Each of Inveresk's four mills, three of which are within 40 minutes drive of the head office in Dunfermline, Fife, with the fourth, near Wells in Somerset, have strong positions in specific areas, such as business stationery, label papers and coated graphic boards.

Although Inveresk now exports 44 per cent of its output it has been hit by the recession in the UK, with turnover falling from £98m in the year to December 1 1990 to £88m last year.

However, operating margins increased from 7.6 per cent in 1990 to 9.8 per cent last year

Stefan Key: major force in speciality paper making worldwide

when pre-tax profits increased marginally from £5.5m to £5.8m. Mr Key said that while the results did not at first sight look a spectacular basis for a flotation, they actually represented a very sound performance.

"We've fought our way through a very difficult climate and invested heavily. We've got great capacity for organic growth, none of our mills is running at capacity. We can expand without taking on more people."

Though there are no directly comparable quoted paper companies, analysts regard the performance as impressive.

Mr Key said the MBO was designed with a relatively early exit in mind. The institutions which backed it – Morgan Grenfell, County NatWest Ventures and 3i – would be keeping about 65 per cent of their holdings, while management would retain between 80 and 85 per cent of their stakes. GP, which had the right to 5 per cent of the proceeds of a flotation, is taking a 3.3 per cent stake.

After the flotation the existing institutional shareholders should end up with about 40 per cent of the company with management having between 25 and 30 per cent and new shareholders holding the rest. About £5m of the money raised will be new cash.

"This is a tactical manoeuvre to get out of the [rather restrictive] MBO mode into quoted company mode," said Mr Paul Dollman, finance director, who joined the company last month from Maddox Group.

"It is not about building up a war chest. We've still got a £20m loan facility which we've never used. We will be debt free from day one," he said.

Mr Key said there were acquisitions to be made among speciality papermakers in the UK and northern continental Europe both in family-owned companies and the "orphan children" of bigger groups, which Inveresk was itself before the MBO.

James Capel, however, pointed out that, once floated, Inveresk would be attractive as an acquisition for other paper companies, naming Portals, a quoted British speciality paper maker, as a potential predator.

"We have no ambition to be taken over," said Mr Key.

He added that performance in the first four months of this year had been very encouraging, ahead of last year in both sales and volume in the "extremely modest" UK recovery.

The full prospectus will be issued on May 20 and dealing in the shares begins on June 2.

NEWS DIGEST

Merivale Moore loss reduced

MERIVALE Moore, the property company, cut pre-tax losses in the six months to *December 31 from £1.68m to* £747,000.

The shares advanced 10p to 49p, a new high for the year.

Mr Grenville Dean, chairman, said: "These figures, whilst no cause for euphoria in themselves, suggest that the blood letting has been arrested and that the company has commenced its recovery."

For the rest of the year he said shareholders could look forward to much better news as a result of the £5m settlement of its claims for damages concerning the collapse of a building and improved trading conditions.

Turnover for the six months was £12.4m (£12.2m). The pre-tax result was helped by lower interest charges of £3.01m (£4.08m). *Losses per share were* 3.66p (7.9p).

The interim dividend is omitted – 1p was paid previously but the final was passed.

Grampian TV edges higher

Grampian Television returned profits of £3.21m pre-tax for the year to February 28, a marginal improvement over the previous £3.18m.

Advertising revenue for the Aberdeen-based ITV company declined 3.7 per cent. Turnover totalled £20.6m (£20.4m).

After tax of £1.07m (£1.12m) and an extraordinary credit of £135,000 (charge £688,000), being additional tax relief for Channel 3 licence application costs, profit for the year worked through at £2.28m (£1.37m).

Earnings emerged at 14.75p (14.23p) and a proposed final dividend of 5p makes a 6.1p (5.5p) total.

Glenburnie, the property investment and development *subsidiary, increased its profits* contribution from £615,000 to £847,000.

Folkes sharply lower at £1m

*Folkes Group, the Midlands-*based property, engineering and building products company, showed a fall in profits from £2.5m to £1m pre-tax for the 1992 year.

A reduction in the proposed final dividend to 0.925p leaves a 1.5p (2.375p) total. Earnings per share fell to 1.25p (4.93p).

Priority was given to increasing market share both in the UK and overseas. Sales to the US improved 31 per cent while exports overall expanded 11 per cent.

Property profits were unchanged at £2.4m but those of the engineering division fell from £1m to £34,000. Building *products incurred losses of* £1.23m (£838,000).

Group turnover declined from £43.2m to £39.8m.

Majedie net asset value rises to 204p

Majedie Investments reported net asset value of 204p at March 31, compared with 171p *a year earlier.*

Net revenue for the six months to end-March was £1.26m (£1.15m) for earnings of 2.41p (2.19p) per share. The interim dividend is raised from an adjusted 1.25p to 2p to reduce disparity.

Losses deepen at Molyneux Estates

Molyneux Estates, the USM-quoted property invest*ment group, reported increased* losses before tax of £245,000 for the six months to December 24.

The outcome was struck after taking account of a £303,000 deficit from its Overgate Centre associate and compared with a deficit on an *FRS 3* basis of £222,000.

Turnover increased from £1.02m to £1.22m. Losses per share came out at 1.35p (1.22p).

Net indebtedness was broadly unchanged and currently stands at £16.5m for the parent company and £5.2m representing Overgate's borrowings.

Venturi Trust assets up 18%

Venturi Investment Trust announced an 18 per cent increase, from 244.01p to 287.87p, in net asset value of the capital indexed shares over *the 12 months to March 31.*

Net revenue amounted to £241,520 (£214,856) for earnings per income share of 3.58p to 4.03p.

The total dividend is raised from 3.26p to 3.45p, with a final of 1.99p.

English National share restructure

English National Investment has released details of the proposed share capital restructure announced in March.

For every preferred ordinary held on May 20 shareholders will receive 1.493318 zero dividend shares and 2.613341 ordinary shares. For every deferred ordinary share held they will *receive 1.159988 zero dividend* shares and 2.030006 ordinary shares. Fractions of shares arising on conversion will be disregarded.

It is also proposed that the company's articles of association be amended to include provisions to effect a winding up in June 2003.

For the year to March 31 attributable profits amounted to £517,839 (£510,478), equal to earnings of 16.4p (16.2p) and 11.5p (11.3p) respectively per preferred and deferred shares.

A final dividend of 11.2p per preferred share makes a same-again 16.2p total. A final of 8.75p on the deferred shares holds the total at 11.3p.

Net asset value per preferred share at March 31 stood at 339.6p (288.1p). For the deferred the figure was 264.6p (213.1p).

Comac moves 9% ahead to £0.39m

Comac Group, the USM-quoted computer consultant, lifted pre-tax profits by 9 per cent, *from £362,424 to £394,723, in* 1992 and is returning to the dividend list with a proposed final of 1.5p.

The result was struck after an exceptional £52,348, being costs relating to an abortive acquisition. The group was continuing to strengthen its balance sheet and seeking a suitable acquisition.

Turnover improved from *£9.97m to £11.1m; operating* income amounted to £481,710 (£439,641). Earnings per share slipped to 3.94p (4.05p).

Hopkinsons tumbles to £2m

By Graham Deller

HOPKINSONS Group saw *profits tumble from £5.16m to* £2.06m pre-tax over the 12 months to January 31 leading the Huddersfield-based abrasives, plastic products and gas *control equipment company* to cut its dividend.

The shares fell 4p to 40p.

Profits were struck after an exceptional charge of £600,000 (£900,000) to cover redundancies at the Bryan Donkin engineering operation which was hit by the decision by British Gas, its largest customer, to reduce capital spending.

The figures marked the first full year's inclusion of Carbo, *the industrial abrasives group* acquired for some £31m in 1991. The move wiped out Hopkinsons' cash pile and led to a turnround from interest *income of £1.46m to payable of* £1.13m.

Net borrowings amounted to £12.8m at the year-end, giving gearing of 38 per cent. Capital expenditure totalled £2.8m in a "closely-controlled investment programme" according to Mr *Bill Goodall*, chairman.

Group turnover amounted to £102.5m (£59.4m including Carbo for four months). After a 49 per cent tax charge earnings per share fell from 4.57p to 1.31p; the proposed final dividend is cut to 0.4p (2.5p) for a total of 1.3p (3.7p).

Mr Goodall said the group had been hit by the impact of "deepening industrial recession" on the abrasives business.

Current trading was about the same level as in the second half of last year, he added, with the exception of Germany which was "*particularly* affected by the recession".

COMPANY NEWS: UK

Kwik Save mounts advance to £61m

By Paul Taylor

KWIK SAVE, Britain's largest discount grocery retailer, yesterday reported a 19.1 per cent increase to £61m in interim pre-tax profits despite growing competition.

However, the group cautioned that it did not expect to maintain this level of growth against a comparatively stronger second half last year.

Earnings per share of 26.5p for the 28 weeks to March 13 were 18.9 per cent ahead of the 22.29p recorded a year earlier.

The interim dividend is increased 15 per cent to 5.4p (4.7p).

Mr Graeme Seabrook, the chief executive who is leaving next month to become managing director of Dairy Farm International, the Hong Kong-based group which owns 28 per cent of Kwik Save, said the results demonstrated the continued success of the group's "no-nonsense" approach to food retailing.

He will be replaced by Mr Graeme Bowler who has been running Franklins, Dairy Farm's wholly owned Australian subsidiary.

Yesterday, Mr Seabrook acknowledged the growing competition in the discount grocery sector but brushed aside suggestions that Kwik Save's margins could come under increasing pressure.

He said the group had continued to make "substantial gains" in market share in a strongly competitive environment and was continuing to reduce overheads as a percentage of sales, in part by investing heavily in new technology.

Sales, including VAT, grew 14.3 per cent in the first half to £1.49bn (£1.31bn). Underlying volume from like-for-like sales rose 8 per cent, while the 35 new stores opened during the period added 6 per cent.

The group operates more than 788 stores and its recently accelerated expansion plans call for opening at least one new store a week, including its first in Scotland. It has also recently launched a range of own-label No Frills generic products which will be sold alongside discounted branded groceries in all its stores.

Drinks and tobacco, sold through the Liquorsave off-licence chain, increased slightly as a percentage of total sales and represented about 23 per cent of the total mix.

Overall, grocery sales rose 13.4 per cent while lower-margin liquor sales increased 18.7 per cent. Mr Seabrook said grocery margins were consistent with the previous year and liquor/tobacco margins slightly improved.

Operating profit increased 16.3 per cent to £61.4m (£52.8m), including £10.3m (£8.6m) of rental income mostly derived from in-store concessions.

Net interest costs fell to £400,000 (£1.6m) and the group ended the period with net cash balances of £25.9m. The group expects to maintain a low level of underlying borrowings.

See Lex

SE looks at small companies

By Richard Waters

THE LONDON Stock Exchange yesterday announced a 16-person working party with a wide brief to look at all aspects of how small companies raise capital.

The group has been assembled following the decision last month to keep alive the Unlisted Securities Market for smaller companies for a short period, rather than close it this year.

The group has been asked to "define the scope of the financing problem, assess potential investor interest and recommend whether or not an alternative market is the right solution," the Exchange said.

It will be headed by Mr Ian Macpherson, a member of the Exchange's board and chairman of Low & Bonar and Watson & Philip, both listed companies.

It includes a number of members of the City Group for Smaller Companies, a pressure group of financiers, brokers and others whose efforts have been instrumental in persuading the Exchange not to close the USM immediately.

Mr Macpherson said that his group would look at all aspects of capital raising by small companies.

Hillsdown finance director resigns

By Maggie Urry

HILLSDOWN HOLDINGS, the food group, has lost the finance director it appointed only last June.

Mr Simon Moffat resigned because his appointment "has not worked out as envisaged by either side", the company said yesterday.

He is expected to receive compensation but the amount has yet to be agreed.

Sir John Nott, who yesterday took over as chairman from Sir Harry Solomon, told shareholders of the departure at yesterday's annual general meeting.

Mr Moffat is being replaced by Mr Ray Mackie who joined the group in January as corporate affairs director.

He came from KPMG Peat Marwick, the group's auditors, where he was corporate finance partner.

Sir John refused to elaborate on the reasons for Mr Moffat's departure, but suggestions were that the personal chemistry had not worked out.

Sir John also told shareholders that "the current year has started reasonably well for the company. Trading is up to our expectations".

Analysts are forecasting a rise in pre-tax profits from £154.1m to about £170m-£175m. Sir John said it was too early to make firm predictions but he was confident over prospects.

After the meeting Sir John said the sharp increases in input costs following sterling's fall last autumn were now beginning to settle down.

He said that the group had decided not to float its housebuilding business this year after all.

The division was doing well and its earnings and cashflow were more important to the group than the funds which might be raised from a flotation, he added.

Similarly, sales of parts of the furniture division might be delayed as the business was performing well.

However, other asset disposals were progressing, he said.

A number of shareholders thanked Sir Harry for his contribution to the group which he co-founded in 1975.

He remains a non-executive director. Sir John said that Hillsdown had been through a period of difficult trading but nevertheless under Sir Harry's leadership profits had risen from £1m in 1980 to over £150m in 1992.

Fenner confirms takeover approach

By Andrew Baxter

FENNER, the Hull-based producer of power transmission equipment, industrial conveyor belting and fluid power products, which has seen its profits slide over the past few years yesterday responded to the recent sharp rise in its share price by confirming takeover interest in the company.

Fenner said it had "received indications of interest which might or might not lead to an offer being made" for the company. The shares have risen from 65p over the past week and yesterday closed 1p higher at 85p following the company's statement. At this level the group is valued at £37m.

The statement immediately increased speculation that Wassall, the mini-conglomerate which acquired a 1.6 per cent stake last June, might be preparing a bid. Mr Chris Miller, Wassall's chief executive, would not comment yesterday.

Mr Mark Abrahams, Fenner's finance director, said the statement was made in the interests of shareholders, and without any acceptance or denial of the speculation about Wassall.

The announcement raises the prospect of a bid for a company which has recently been going through a difficult period. Over the last three years pre-tax profits have fallen from £16.4m to £5.5m in 1991-92.

In February Mr Tom Brown resigned as managing director and on March 26 Fenner said it expected to report an attributable loss for the six months to February 28.

Plateau spurns Kingstream offer

By Kenneth Gooding, Mining Correspondent

KINGSTREAM Resources, the small Australian exploration company which has made a hostile bid for Plateau Mining, the former UK natural resources company that is now a shell, virtually doubled the terms of its all-share offer to £2.37m yesterday but was met with immediate rejection.

Mr Donald Driver, Plateau's chairman, said the bid continued to be "without merit". He added: "Plateau shareholders are concerned about the quality, not the quantity, of Kingstream's shares."

He pointed out that Kingstream's latest accounts were heavily qualified by its auditors on the grounds of a deficiency of working capital. "This was in spite of Kingstream borrowing money from its shareholders and pledging certain of its major assets as security. I can see no merit in anybody accepting shares of this doubtful value."

Mr Driver said Kingstream's shares had dropped by more than 15 per cent since the first offer on April 13.

Kingstream said it was increasing its offer to three of its ordinary shares for every 10 Plateau ordinary to take account of the increased value of the UK company following the agreement for Plateau to sell its interest in the Mhondoro joint venture in Zimbabwe to Delta Gold for shares worth more than £1.5m.

Kingstream said the new offer valued each Plateau share at about 5.18p against a suspension price of 3p.

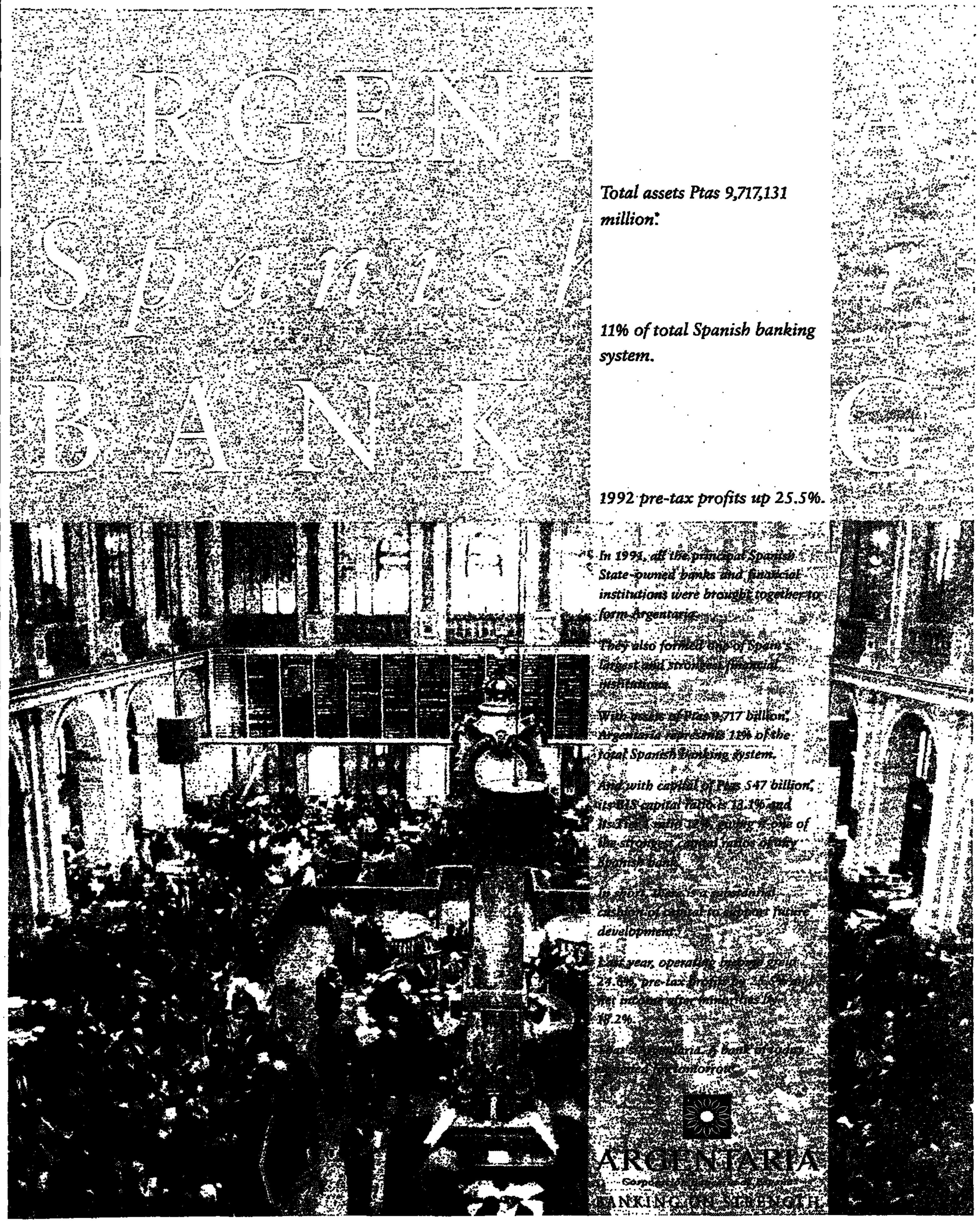
Stakis seeking to expand

By Michael Skapinker, Leisure Industries Correspondent

STAKIS, the Glasgow-based hotel and casino group which faced a financial and management crisis two years ago, has recovered sufficiently to begin buying new assets, Mr David Michels, chief executive, said yesterday.

Mr Michels, who joined Stakis from Hilton UK in December 1991, said the group was looking for hotels to add to the 30 it already owned. It also wanted to add to its 18 casinos.

He added that Stakis, which announces half-year results in June, had cut gearing from 79 per cent to 35 per cent. Debt had been reduced from £235m to £116m and creditor banks cut from 21 to nine.



JOBS: Complaints that new technology encourages mental laziness are somewhat less than new

Don't bar the tool, blame the trainer

YET again the Jobs column is appealing to readers to help to settle an argument. This time, though, the vehement reactions when the point first came up suggest that my view on the matter won't get anywhere near as much support as you gave me when I last made such an appeal 13 weeks ago.

On that occasion the issue was whether a certain psychological test was right to regard disdain for the conversation of "ordinary, habit-bound conventional people" as a mark of creative intelligence. A handsome 95 per cent of your responses agreed that, by and large, it wasn't.

Today's issue is more directly practical. It arose at a gathering held at Nottingham University a *few days ago by the central body* serving the associations of former students of the United Kingdom's universities – the Conference of University Convocations and Graduate Associations.

The initial session could well have been sub-titled "From the sublime to the ridiculous". The opening two speakers were both eminent academics. The first was Professor Gareth Williams of London University. The second was Dr Bill Newton-Smith of Oxford, now also taking a leading part in the creation of the new Central European University funded by George Soros. Both were largely optimistic about the future of higher educational institutions.

Then came the Jobs column, which was less so.

But the argument that needs to be settled didn't arise from what any of us *said in our set-piece* speeches. It boiled up in the discussion afterwards when, to a question on educational methods, I replied critically by citing the case of a colleague who, as well as strumming a keyboard part-time as a journalist, is taking a full-time degree course.

On starting it, wishing to be sure her home computer's software was compatible with the college's system, she asked her tutor which word-processing program was in use. His response was to warn her against relying on a computer when producing her student essays.

The reason, he said, was that in all her examinations she would have to work in long-hand. She would therefore be wise to keep her fist in for protracted stints of pen-pushing.

Now that strikes me as a wasteful requirement. True, the development of handwriting skill is essential in education's earlier stages, and it remains the simplest means of framing shortish communications throughout life. But the practice of churning out *thousands of words in long-hand* over periods of hours is surely obsolescent.

While there is no harm in folk doing it as a labour of love (as they might make wooden cart-wheels), to force it on students at university level is a different matter. Given their increasingly probable need to use a keyboard in the business of earning their living, they'd be better occupied in developing the requisite skills as part of their studies.

So I upped and said as much to the conference.

Whereupon nigh a hundred pairs of eyes turned evil and zeroed in on me. Besides being awed, I was startled. Such a reaction might have been expected if the audience had consisted entirely of academics, who can usually be relied on to leap to the defence of their institutional *habits. But a good many of those* present were business people.

Mercifully, instead of leaving me to be savaged, Bill Newton-Smith promptly riposted that if he had his way, except in subjects where computers are now indispensable, students would be barred from using word-processors for their course-work. At which a large part of the mob broke into spontaneous applause.

The reason he gave, which also drew approval, was that the toil of writing long-hand concentrates the mind on producing succinct and disciplined results. By contrast, *computer technology* tends to blind students to the need to apply hard and deep thought to a question, by making it easier for them just to smother *it with large numbers of words.*

Despite being taken aback, I was disposed to argue in detail that it ain't necessarily so. In the event, given that the consensus of the meeting was against me and that people were impatient to move to other topics, I refrained – which might give my return to the argument from the safety of a newspaper office the mien of a double act of cowardice.

Even so, on reflection, it seems worse just to let the issue drop. For I doubt that the long-hand *lobbyists' case is as strong as* their commitment to it is fierce.

Take for instance Dr Newton-Smith's claim that word-processors encourage mental laziness. It is far from the first time that such charges have been made against *an important technical advance.*

Even the first invention of lettering, enabling us to write things down instead of storing them in our heads, was criticised *on similar grounds* by Plato in the last part of the Phaedrus some 2,400 years ago.

In it, he has the supposed inventor of letters go before his king, boasting that the result would be to make people "wiser, and better able to remember". To which the king replies:

"...you, as being the father of letters, have ascribed to them now in your fondness exactly the reverse of their real effects. *For this invention of yours will* produce forgetfulness in the minds of those who learn it, by causing them to neglect their memory inasmuch as, from their confidence in writing, they will recollect by the external aid of foreign symbols, and not by the internal use of their own faculties. Your discovery, therefore, is a medicine not for memory, but for recollection – for recalling to, *not for keeping in mind.*

"And you are providing for your disciples a show of wisdom without the reality. For, acquiring by your means much information unaided by instruction, they will appear to possess much knowledge, while in fact they will for the most part know nothing at all; and, moreover, be disagreeable people to deal with, as having become wise in their own conceit, instead of truly wise."

Oddly enough, I have not heard anyone recently urging that students be barred from taking notes and reading written texts. So perhaps the effects have turned out less bad than the long-hand lobby's ancient precursor feared. Nor do I see why the results need be worse where word-processors are concerned.

Any tool can be used either wisely or foolishly, and there is nothing in the tool itself that decides which of the two will be the case. The decisive factor would seem to be whether the wise application is trained into the users by their educators.

If people capable of giving such training are scarce in the universities, there's certainly no lack of them in certain places elsewhere. The printable name for them is "editors".

The archetypal models react to an unacceptable piece of writing by waiting until the deadline is *breathtakingly* close, then throwing it back at you with the command to re-write it because it is wrong.

There's no use asking *why* it is wrong. Even if they'd time to tell you, they probably do not know. All they know is that it *is* wrong. And that's that. You have no choice but to find out why for yourself and set things right.

As a *learning method*, that is surely more effective than not just writing the piece out long-hand, but carving it in stone.

Michael Dixon

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ACCOUNTANCY COLUMN

Daimler-Benz gears up for a drive on the freeway

David Waller explains why Germany's biggest industrial group is bowing to Anglo-American accounting practice

IT IS time, said the chief executive of Germany's largest bank at a recent press conference, for Germany to enter the civilised world.

Mr Hilmar Kopper, head of the Deutsche Bank, was referring to German companies' accounting practices, and his remarks came shortly after Daimler-Benz had announced it would be moving from the teutonic version of accounting to the Anglo-American.

Daimler-Benz, Germany's biggest industrial group, which is 28 per cent owned by the Deutsche Bank, reached agreement with the Securities & Exchange Commission at the end of March over the broad terms of a listing on the New York Stock Exchange.

Subject to further, detailed negotiations with the SEC, Daimler is set to obtain a full listing on Wall Street later this year. The listing will end the anomaly that German companies, among the biggest industrial and financial services groups in Europe, have not had any direct access to the US equity market, the largest pool of capital in the world.

The reason for this was that German companies refused to submit to the requirements of the SEC and publish US versions of their accounts.

German accounting differs from Anglo-American in a number of important areas, not least that it makes no claim to provide a "true and fair" view of economic reality.

It is conditioned by tax laws and the requirement to put the interests of creditors above those of other users of accounts, for example shareholders. Although recent EC legislation has meant that group accounts have become more transparent, German accounting is still characterised by conservatism and a want of pertinent detail.

The differences reflect contrasting styles of capitalism: the Anglo-American variety where the capital market plays an important role in the economy, and the Germanic, where there are only 665 listed companies and the stock market represents far smaller percentage of GDP than in the US or the UK.

But, said Gerhard Liener, Daimler finance director, at the time that the agreement was sealed with the SEC, "Anglo-Saxon accounting has become the language of international business".

Daimler's decision to "go it alone" to New York follows the failure of a joint approach to the SEC by a number of big German companies. The unilateral step has incurred the wrath of fellow German companies. Mr Helmut Loehr, finance director of Bayer, one of Germany's big three chemicals companies, has condemned Daimler for capitulating before the US authorities and showing a want of traditional German solidarity. Nevertheless, it seems likely that other big German companies will follow suit once they have had the opportunity to study the details of the final agreement between Daimler and the SEC.

Throughout the 1980s, German companies could adopt a high-handed approach to the world's largest capital market for the simple reason that they did not need that capital. Recent figures from the Bundesbank show that companies generated so much cash throughout the decade that they could finance the bulk of their investments – excluding acquisitions – from internal resources.

But as Ronaldo Schmitz, board director of the Deutsche Bank responsible for corporate finance, explained to a conference of institutional investors in Düsseldorf, this is set to change as Germany industry's cash needs grow substantially in the more difficult economic environment of the 1990s.

Bank lending, the traditional source of finance, will not be adequate, requiring German companies to turn increasingly to equity markets.

Subject to further, detailed negotiations with the Securities & Exchange Commission, Daimler is set to obtain a full listing on Wall Street

"During the most significant industrial reconstruction since the war, the cost of capital will gain importance as a competitive factor," Mr Schmitz said. "Throughout the next decade there will not be an abundance of capital as wealth will be soaked up by government deficits. German industry will have to change its attitude to shareholders if it is to attract that capital."

Foreign investors, predominantly institutions, own between 40 and 50 per cent of the "free float" in German companies shares. But their interests have traditionally been neglected in favour of the banks, insurance companies and other corporate shareholders which control the German stock market and have other priorities than short or even medium-term investment performance.

One of the ways in which the international investment community is ill-served is in the quality of accounting information.

"The lack of visibility of company prospects is a serious constraint on inward investment in the German market," said Tracey Campbell, manager of Fidelity Investment's Germany Fund on a visit to Frankfurt last month, "despite Germany being the largest economy in Europe.

"The poor quality of financial information available from many German companies makes it difficult for investors to buy a stock with confidence since valuations cannot be clearly established . . . Few companies give any indication of divisional profits breakdown at the kind of level which would allow the investor to track margins over time and make comparisons across companies."

Takeover protection devices – in place at many large companies – represent another obstacle to flows of institutional investment into Germany. It is no coincidence that Daimler, within days of announcing its move to investor-friendly accounting, announced it would also be getting rid of its own anti-takeover device.

Daimler said it planned to dissolve Mercedes Automobil Holding (MAH), a company which has no purpose but to hold a 25.23 per cent stake in Daimler and serve as a block to unfriendly takeovers. Set up in 1977 to prevent the Shah of Iran buying up the crown jewels of German industry, MAH has no connection with Daimler's Mercedes-Benz automobile business.

These two moves are connected with Daimler's plans to hold a large rights issue next year. It was forced to abandon a DM2bn issue planned for the German market last autumn because of poor market conditions (and poor operating performance).

Future capital raising will be made easier, not least because 1993 reported profits and equity capital will be sharply higher under US Generally Accepted Accounting Principles than under German rules. Obviously this reflects no real fundamental change in "economic reality" – but the US version of the figures is likely to make the shares look more palatable to international investors.

It still has to be decided how Daimler will deal with a number of tricky issues, for example the write-back of provisions or of DM4bn of goodwill which arose on a spate of acquisitions in the late 1980s and which was written off against equity.

But Michael Geiger at NatWest Securities in London believes that current year group profits will benefit from a one-off write back of provisions of up to DM2.5–3bn, three times the group's expected net profit of about DM1bn. Equity will be bolstered by up to 20 per cent, Geiger calculates.

Just as important as the impact on reported profits are the longer-term cultural changes which are likely to be induced by greater accounting transparency – for example "segmental" reporting by operating division and a US-style cash-flow statement.

Daimler will have to publish more financial information, more often than before, putting pressure on the management of the German company to deliver the financial performance required by the Anglo-American investment community.

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- liaise with Group Management, external advisors and shareholders in development of a clear statutory reporting and taxation plan

(Ref: FT2241)

Financial Analysis Manager

- review worldwide business operating performance and instigate profit improvement changes
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- manage the product pricing and margins analysis function
- develop systems to enhance business planning
- review industry trends and business opportunities

(Ref: FT2242)

Applicants, aged 28 to 35, should be qualified accountants with experience of working in a large dynamic company. Personal attributes should include good communication skills, leadership qualities, systems development skills and a practical "hands-on" approach to problem solving.

Candidates should write to Peter Ward ACMA (enclosing a Curriculum Vitae and details of current salary) at: Martin Ward Anderson, Goswell House, 134 Peascod Street, Windsor, Berkshire SL4 1DS. Please quote the appropriate job reference number. Alternatively telephone him on 0753 830881.

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Further particulars can be obtained from The Personnel Office, The Registry, The University, Canterbury, Kent CT2 7NZ. Telephone (0227) 475482 (24 hour answerphone) or (0227) 764000 extension 3674. Please quote reference number A93/46.

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The successful candidate will be a qualified accountant, probably aged 28-35, with 1-3 years post qualification experience gained in a US multi-national environment. The future potential for personal development within this group is outstanding.

Interested applicants should apply in writing to **Dan Chavasse at Michael Page Finance, Windsor Bridge House, 1 Brocas Street, Eton, Berks SL4 6BW.** Please include full salary details and a daytime telephone number.

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Please send full personal and career details, including current remuneration and daytime telephone number, in confidence to Ann Shepherd, Coopers & Lybrand Executive Resourcing Ltd, 76 Shoe Lane, London EC4A 3JB, quoting reference AS975 on both envelope and letter.

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Gold hits 9-month high as buying spree continues

By Kenneth Gooding, Mining Correspondent

THE FIRE in the gold market ignited by high-profile investors Sir James Goldsmith and Mr George Soros continued to rage yesterday as the price moved up to a nine-month peak of $356.60 a troy ounce and the excitement spilled over into silver and other precious metals markets.

"The propaganda about the Goldsmith and Soros deals has been overwhelming," said one trader. "I am getting calls from no-brain investors who have difficulty picking up the 'phone, let alone understanding the gold market. But nobody wants to sell gold. Professionals are having to buy to cover option positions. They [Sir James and Mr Soros] have provoked a weight of money that means rationality is suspended. Who knows where or when it will end?"

Some traders said silver was centre stage yesterday as the price moved to a 21-month peak of $4.36 an ounce in London before easing back to close at $4.325, up 21 cents from Wednesday's close. Platinum, like gold, reached its highest price for nine months in London and closed at $384.50 an ounce, up $10.30.

Gold eased back to close last night at $355.25 an ounce, up $3.60. Seven weeks ago the metal was at its lowest for seven years but at the weekend it was revealed that Mr Soros, who made $1bn in the currency markets last September, had bought shares in Newmont Mining, the biggest North American producer, and Sir James, the Anglo-French dealmaker, had taken out a huge number of options to buy gold.

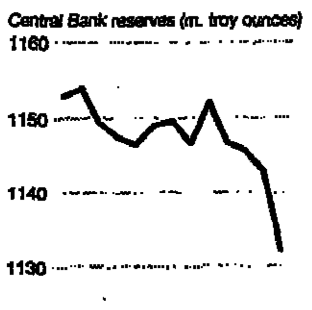
Mr Andy Smith, analyst with the Union Bank of Switzerland, said: "In the next few weeks, until Sir James's options mature, gold buying by call option writers will mean that the more the price rises, the more it will rise."

Mr Jeff Christian, managing director of CPM, the New York-based precious metals consultancy group, suggested gold was ready for "an extended move upwards", but it was still susceptible to sales by central banks – which have 35,000 tonnes in their vaults.

He took to task those organisations and gold bulls who in recent weeks had "attempted to mislead the public on the essence and nature of official sector gold activity". He said a large number of central banks had sold gold in the past few years and these disposals had brought about 33.7m ounces net of additional bullion to the market since 1987.

Gold reserves

Central Bank reserves (m. troy ounces)



Source: IMF, CPM Group

France gets permission to restrict banana imports

By Andrew Hill in Brussels

FRANCE IS to restrict direct imports of bananas from African, Caribbean and Pacific producers until a new European Community-wide quota regime comes into force on July 1.

The European Commission decided yesterday that France could peg direct imports of ACP-produced bananas in May and June at the average import volume for those months over the last three years.

French officials said they were also seeking permission to block parallel imports of ACP bananas from other EC countries, principally Belgium and Italy.

The commission is still considering that request, which, if granted, could lead to the reimposition of internal border controls lifted on January 1 when the single European market came into force.

The French banana market has slumped this year, with prices dropping from FFr6 to FFr3.50 (42p) a kilogram this month. France has blamed a steep increase in cheap imports, particularly from the Dominican Republic, a charge certain to be denied by the Caribbean state.

The influx of cheap bananas has hit France's traditional suppliers in the overseas territories of Martinique and Guadeloupe and in former colonies such as the Ivory Coast and Cameroon. Mr Dominique Perben, minister for French overseas territories, said yesterday that these were one-off measures which would start having an effect on the French market from the beginning of next week.

However, ACP banana exporters will be free to compete in the EC from July 1 under the controversial quota regime agreed in February, which is intended to protect them from Latin American competition. "There will of course be a drop in price on the French market from July 1, but the difference is that [traditional ACP producers] will be compensated for their losses," said a French official yesterday.

The French action has been taken under the safeguard clauses of the 1989 Lomé Convention between the ACP countries and the EC. The commission had already given France and Britain temporary rights under the Treaty of Rome to limit parallel imports of Latin American bananas.

Organic profits go against the grain

David Blackwell on surprising results from a farming experiment

THE COST of switching land from conventional to organic wheat production is about £800 a hectare. This is one of the earliest conclusions that can be drawn from an experiment begun three years ago at Boarded Barns Farm near Ongar in Essex.

Mr Lister Noble, the farm manager, believes his first organic crop of 5.8 tonnes a hectare, harvested last year, was one of the best in the UK – it compared with just under 8 tonnes a hectare obtained on the same farm using conventional methods.

To his surprise, however, the gross margin on the conventional crop was higher than on the organic at £608 compared with £556. That figure was arrived at after spending £100 a hectare on pelleted chicken manure after the organic crop appeared to be suffering from stress.

"I was not expecting the higher gross margin on the conventional crop," he says. "Even with no fertiliser the organic gross margin would still have been only £656. That's not much of a premium considering there has been no income for two years."

This is a reference to the need to leave a field fallow for two years before it can be used for an organic crop. In the first year each hectare intended for organic production incurred a cost of £32 as it was put to grass. The second year saw an income of £48 from the grass. The third year's wheat output brought in an income of £555 a hectare, giving a gross margin for the period of £571.

Using a conventional cropping policy, a similar hectare earned £128 in year one from rape, and £641 and £607 from wheat in years two and three, giving a gross margin of £1,376 a hectare for the three years.

Mr Noble points out that most farmers would need a large subsidy to be able to bear such a cost. "I would be wary if it was my own money about committing myself to it – and we have had good crops."

However, there is nothing a farmer can do about market forces and the premium for organic wheat has come down sharply in the last three years. In 1990 organic wheat was selling at £260 a tonne, while the price for conventional was £125. Early this year organic wheat was fetching only £187 a tonne, while conventional had risen to £147.

The Boarded Barns experiment, which is being run by Rhone-Poulenc, Europe's biggest agro-chemicals manufacturer, is in only the early stages of its 10-year life, and Mr Noble is determined not to jump to premature conclusions. He also vigorously attacks any suggestion that the experiment, which has excited huge interest from outside bodies, will lead to conclusions which the company might be expected to want.

"It is totally unbiased," he says. "Every single project is being run or monitored by an outside body."

The company points out that it has not sought out people to join the experiment. Rather, organisations wanting to carry out experiments have sought permission to join in. New studies started in the last year include one by the Agriculture and Food Research Council into the relation between birds and the insect population on both sides of the farm and one by the University of Plymouth into dragonflies. This year Boarded Barns is the display farm for Essex for the Farm and Wildlife Advisory Group.

Mr Noble is a member of Organic Farmers and Growers and the farm is registered with the UK Register of Organic Food Standards.

The soil at Boarded Barns is similar to that across most of south-east England's grain growing country. The conventional side of the farm has followed a normal rotation policy of milling wheat, beans and oilseed rape. Herbicides, pesticides and fungicides are used when deemed necessary.

However, a great deal of attention has been paid to conservation. There is a detailed tree and hedge programme and a one-metre strip around each field is kept clear of all chemicals.

Not that the organic side of the farm will reject the use of all chemicals – UKROF has a list of allowable sprays, including sulphur to control mildew. The effect of these will also be studied. "There is no such thing as chemical free farming," says Mr Noble. "Natural products can be quite toxic – that is one of the things we are looking at."

He believes a lot of the success of his first organic wheat crop can be traced back to excellent weather. For example, he invested £6,000 in a 12-metre wide harrow comb, which was efficient at removing big weeds when the weather was dry. The little weeds then withered.

However, if it had rained the little ones would have grown, and uprooted weeds could have taken root again, he points out.

He also believes that Boarded Barns benefits from being surrounded by well-run conventional farms, although he fears the results of set-aside, which could lead to reservoirs of disease.

Aside from the good weather, the organic crop was the first from land left fallow for two years. "The soil has had a good rest. It's first wheat – you always get a good crop."

Samples of the wheat from both crops were sent to the Flour Milling and Bakery Association, which found there was effectively no difference between the two.

The flour was then sent to a panel of the Campden Food and Drink Research Association, the authoritative food tasting body, which baked loaves for a blind testing. The results were surprising – the panel preferred the bread baked from the conventional wheat, describing the organic brown loaves as having a significantly more musty/mouldy flavour than the conventional.

However, the two wheats were not of the same variety. Future crops will switch the same varieties from organic to conventional and vice versa.

Such is the attention to detail in this experiment "We may not come to any conclusions for 10 years," says Mr Noble. "At the moment all the research projects will say is that we have established a good baseline."

German smelters 'under threat'

By Kenneth Gooding

NONE OF Germany's aluminium smelters would survive if present low prices continued into 1994, said Mr Karl Wobbe, management board member responsible for production at VAW Aluminium.

Even VAW's most-efficient and biggest smelter, the 210,000 tonnes-a-year plant at Neuss, would have to close unless the London Metal Exchange price recovered to $1,200 a tonne and stayed above that level – VAW needed $1,150 a tonne to cover the smelter's cash costs. The three-month aluminium price closed at $1,123.75 a tonne on the LME last night.

His warning comes at a time when VAW is about to enter negotiations for new power supply contracts for its smelters and EC producers are pressing the European Commission to impose quotas on aluminium imports from Russia. However, Mr Wobbe denied that the threat of closure, which would affect about 1,000 people, was motivated by these factors. "Even with a new power contract it would not make sense to continue at Neuss at today's prices," he explained.

Total German aluminium output this year would be 25 per cent below the 1988 level at about 550,000 tonnes.

Brazilian move reverses coffee rally

By David Blackwell

NEWS THAT Brazil is to sell 600,000 bags of coffee from stock to help finance investment in its industry put this week's rally in coffee prices into reverse.

Traders and analysts were sceptical about the announcement as there was no indication of when the sale would take place or at what price. They agreed, however, that it was enough to turn sentiment. London's July robusta contract shed $19 to close at $876 a tonne, while in late trading the New York May arabica price was off 1.40 at 58.70 cents a lb.

In the first two days of this week the New York May arabica contract rose by more than 6 cents a lb, and touched a high of 61.20 on Wednesday. The London market followed, moving above $900 a tonne.

The main factor behind the move was a fall of 100,000 bags (60 kg each) in US certified stocks – although traders were quick to point out that 5.57m bags of stocks remained.

In addition delivery notices against the May contract were well absorbed. As the market rose, fund and commission house buying emerged.

Yesterday's reverse followed a Reuter report of a news conference by Mr Celsius Lodder, of the Brazilian Industry Ministry, at which he said the country would invest $850m in its coffee sector by raising funds through sales from its 17.5m bags of stocks.

However, one London analyst said it appeared that Mr Lodder's remarks had been made off the cuff. Such schemes were mentioned every so often as a possibility – "but I can't see it happening. It would be a bad time to sell off the harvest is just starting".

Mr Lawrence Eagles of GNI, the London futures brokers, said the quality of the 600,000 bags was unknown. But if they were sold on to Brazil's domestic market, good quality coffee would be released for export.

● A meeting of the International Coffee Organisation's executive board yesterday was discussing a possible one-year extension to the coffee agreement. A month ago negotiations for a new agreement broke down, and members have to decide a future form for the ICO. Several smaller producers are questioning why, with no market support measures in place, the ICO should have a central London office and a staff of about 60.

Albania offers onshore exploration blocks

By Kerin Hope, recently in Tirana

ALBANIA IS extending its oil and natural gas exploration programme to onshore areas, offering concessions in six blocks covering 700 square km along the country's Adriatic coastline.

In a separate project, international oil companies are being invited to submit bids for a $70m recovery enhancement programme at existing oilfields in southern Albania.

The offers mark a reversal of previous Albanian policy on oil exploration, which restricted foreign companies to offshore drilling. The government is now trying to attract large-scale investment from abroad to help modernise the country's crumbling industrial base.

Following completion of seismic testing last year, five international oil companies are due to start offshore drilling in the Adriatic this summer. However, there have been considerable administrative delays caused by uncertainty over Albania's legal framework for investment.

Mr Albert Isai of Albpetrol, the state oil company, said that the tender offer for onshore concessions was prepared in partnership with Western Geophysical, the US-based surveying company, which re-processed data provided by Albanian geologists.

He said seven international companies had so far shown interest in onshore exploration. Bids are due by June 15.

The onshore contracts, expected to have a 25-year duration, foresee a five-year research and exploration period, with on-site training to be provided for Albanian technical staff.

Under a production-sharing agreement, capital expenditures would be recovered over five years. Up to 40 per cent of yearly crude oil production would be payable for cost recovery, while profit sharing would be negotiable, Mr Isai said.

Natural gas discoveries would remain the property of the Albanian state. The government hopes that Albania will be linked with a planned gas pipeline from Skopje in Macedonia and another under construction in northern Greece. Both would supply Russian natural gas.

The recovery enhancement project covers oilfields at Divjaka, Povleca and Ballsj where total production of crude has declined to around 800,000 tonnes a year from more than 2m tonnes a year in the late 1970s.

Albpetrol invited bids in the form of joint ventures, production sharing or service contracts, specifying that local staff and services should be used wherever possible.

The three-year project would probably involve new drilling "for exploitation not exploration" and use of new technology, such as steam injection techniques, to increase oil yields, Mr Isai said.

"Production has been steadily declining. We are using antiquated Russian, Chinese and Romanian equipment, and there are no spare parts," he said.

The project also calls for spending $5m for environmental improvement, mainly on a clean-up of contaminated land and streams around the oilfields.

Negotiations are under way with several international companies, including Mol of Hungary, and two US-based companies, Transmark and Anglo-Suisse, with contracts due to be signed this summer, Mr Isai said.

WORLD COMMODITIES PRICES

MARKET REPORT

COPPER prices fell to fresh session lows on the LME, dragged lower by the trend in New York. Business was not particularly active yesterday, as the markets re-adjusted after Wednesday's advances were snuffed out and traders became more cautious over upside potential. Comex opened sharply down, but was recovering some of the losses in later trading. "Copper opened up on the defensive and sustained another round of heavy losses in the early hectic almost frenetic trading," said *one New York analyst.* "The selling spate was relatively short-lived however, but supported by looming industrial action in Eastern Germany and news yet of more increases in production coming this time from Chile." New York raw **SUGAR** stayed lower at midday and was perched just above the lows of the week as the market shrugged off a bullish report from F.O. Licht, which cut its estimate of world sugar production in 1992-93 to 113.01m tonnes from a previous projection of 114.88m. New York **COTTON** prices were ahead at midday following Wednesday's steep sell off. One broker said the *low prices had probably attracted* better inquiries for US cotton.

Compiled from Reuters

London Markets

SPOT MARKETS		
Crude oil (per barrel FOB)(May)		+ or -
Dubai	$16.40-6.48	+.195
Brent Blend (dated)	$18.68-8.73	+.265
Brent Blend (Jun)	$19.00-9.05	+.265
W.T.I (1 pm est)	$20.42-0.45u	+0.27
Oil products (NWE prompt delivery per tonne CIF		+ or -
Premium Gasoline	$212-214	+1
Gas Oil	$185-187	+4
Heavy Fuel Oil	$77-79	
Naphtha	$183-184	+1
Petroleum Argus Estimates		
Other		+ or -
Gold (per troy oz)‡	$355.25	+3.6
Silver (per troy oz)‡	432.5c	+21
Platinum (per troy oz)	$384.50	+10.3
Palladium (per troy oz)	$118.50	+2.65
Copper (US Producer)	89.0c	-1
Lead (US Producer)	33.50c	
Tin (Kuala Lumpur market)	14.17r	
Tin (New York)	257.0c	+1.5
Zinc (US Prime Western)	62.0c	
Cattle (live weight)†	137.82p	-1.01*
Sheep (live weight)†♠	138.03p	+0.42*
Pigs (live weight)†	88.79p	-0.78*
London daily sugar (raw)	$311.9	-5.5
London daily sugar (white)	$298.5	-11
Tate and Lyle export price	£311.5	-4
Barley (English feed)	Unq	
Maize (US No. 3 yellow)	£164.5	
Wheat (US Dark Northern)	Unq	
Rubber (Jun)♥	56.50p	
Rubber (Jul)♥	56.75p	
Rubber (KL RSS No 1 May)	210.0m	
Coconut oil (Philippines)§	$402.5y	+5
Palm Oil (Malaysian)§	$375.0u	+2.5
Copra (Philippines)§	$257.5	
Soyabeans (US)	£178.0z	
Cotton "A" Index	60.05c	-0.85
Wooltops (64s Super)	338p	-2

£ a tonne unless otherwise stated. p-pence/kg. c-cents/lb. r-ringgit/kg. y-Jul/Aug u-May. . z-Apr/May v-Jun ♥London physical. §CIF Rotterdam. ‡ Bullion market close. m-Malaysian cents/kg.♠Sheep prices are now live weight prices * change from a week ago, provisional prices.

SUGAR – London FOX			($ per tonne)
Raw	Close	Previous	High/Low
May	273.00	278.00	273.00
White	Close	Previous	High/Low
Aug	311.50	310.50	311.90 308.00
Oct	298.50	299.50	298.00 294.00
Dec	297.30	298.00	292.50
Mar	297.00		295.50 291.90

Turnover: Raw 2 (1) lots of 50 tonnes. White 773 (1179) Paris- White (FFr per tonne): Aug 1667.96 Oct 1606.83

CRUDE OIL – IPE			$/barrel
	Latest	Previous	High/Low
Jun	19.05	18.79	19.06 18.79
Jul	19.07	18.94	19.08 18.88
Aug	19.15	18.93	19.16 18.96
Sep	19.13	19.00	19.13 19.05
Oct	19.15	19.02	19.15 19.08
Nov	19.23	19.07	19.23 19.12
Dec	19.27	19.12	19.27 19.20
Jan	19.23	19.10	19.23 19.15
Feb	19.18		19.18 19.14
IPE Index	18.78	18.85	

Turnover 18801 (14917)

GAS OIL – IPE			$/tonne
	Close	Previous	High/Low
May	182.00	177.50	182.50 177.25
Jun	178.00	174.25	178.25 174.00
Jul	176.75	173.75	177.00 174.00
Aug	177.50	174.50	177.75 175.75
Sep	178.50	176.50	179.00 178.25
Oct	181.75	179.25	182.25 182.25
Nov	184.00	181.25	182.50 182.50
Dec	185.50	182.75	185.75 185.00
Jan	185.75	183.25	185.25

Turnover 20254 (8365) lots of 100 tonnes

FRUIT & VEGETABLES
Pears are this weeks best buy reports the FFVIB, at 40-55p a lb depending on variety. Other good fruit buys include Bramley apples at 30-35p a lb, cape Golden Delicious at 45-50p a lb, bananas at 45-55p a lb, avocados at 40-55p each and white fleshed grapefruit at 25-30p each. English and Dutch onions are priced at 20-25p a lb, cauliflower at 40-55p a head, spring greens at 35-40p a lb and broccoli at 40-50p per 8oz prepack. Supplies of English lettuce are increasing with Round lettuce at 25-35p each, tomatoes at 65-75p a lb and peppers at £1.20-1.80 a lb depending on colour.

COCOA – London FOX			£/tonne
	Close	Previous	High/Low
May	665	673	670 661
Jul	682	691	687 678
Sep	696	705	701 692
Dec	715	724	717 711
Mar	735	744	737 732
May	750	759	752 747
Sep	777	788	781 775

Turnover: 4970 (5203) lots of 10 tonnes
ICCO indicator prices (SDRs per tonne). Daily price for Apr 28 731.82 (721.39) 10 day average for Apr 29 721.09 (720.13)

COFFEE – London FOX			$/tonne
	Close	Previous	High/Low
May	876	797	885 873
Jul	876	895	894 875
Sep	874	888	884 870
Nov	883	898	888 880
Jan	890	903	898 882
Mar	902	915	901 893

Turnover: 2851 (3723) lots of 5 tonnes
ICO indicator prices (US cents per pound) for Apr 28: Comp. daily 53.68 (54.19) 15 day average 50.95 (50.76)

POTATOES – London FOX			£/tonne
	Close	Previous	High/Low
May	47.7	50.0	48.0 48.0
Apr	97.2	95.0	97.0 95.0

Turnover 75 (57) lots of 20 tonnes.

SOYAMEAL – London FOX			£/tonne
	Close	Previous	High/Low
Aug	138.00	139.00	138.00
Oct	142.50	144.00	142.50

Turnover 20 (20) lots of 20 tonnes.

FREIGHT – London FOX			$10/index point
	Close	Previous	High/Low
Apr	1540		1544 1538
May	1525	1515	1525 1520
Jun	1418	1415	1418 1405
Jul	1285	1285	1285 1280
Oct	1385	1390	1390 1385
Jan	1410	1410	1410
BFI	1546	1541	1546

Turnover 257 (221)

GRAINS – London FOX			£/tonne
Wheat	Close	Previous	High/Low
May	143.65	143.50	143.75 143.65
Jun	144.75	145.10	145.40 144.75
Sep	108.75	108.75	109.00 108.75
Nov	110.75	110.50	110.75
Jan	113.50	113.30	113.50
Mar	116.60	116.10	116.60
May	119.50	119.00	119.50 119.00
Barley	Close	Previous	High/Low
May	138.25	139.00	138.25 138.25
Sep	107.30	105.75	107.30 107.00
Nov	110.00		110.00
Jan	113.00		113.00

Turnover: Wheat 281 (317), Barley 60 (11).
Turnover lots of 100 Tonnes.

PIGS – London FOX			(Cash Settlement) p/kg
	Close	Previous	High/Low
Jul	103.0		102.5
Oct	106.0	105.5	105.0

Turnover 4 (2) lots of 3,250 kg

LONDON METAL EXCHANGE (Prices supplied by Amalgamated Metal Trading)

	Close	Previous	High/Low	AM Official	Kerb close	Open Interest
Aluminium, 99.7% purity ($ per tonne)					Total daily turnover 41,717 lots	
Cash	1101.5-02.5	1106.5-07	1100.5	1100.5-01		
3 months	1123.5-24	1129.5-30	1126/1120	1123-23.5	1121.5-22	174,347 lots
Copper, Grade A (£ per tonne)					Total daily turnover 45,891 lots	
Cash	1176-77	1188-89	1177.5	1177-77.5		
3 months	1195.5-97	1209-10	1202.5/1191	1197.5-98	1198-99	180,012 lots
Lead ($ per tonne)					Total daily turnover 3,927 lots	
Cash	265-66	266.5-67	265.5	265.5-66.75		
3 months	275-76	276-76.5	276/273.5	273.5-74	275-76	20,678 lots
Nickel ($ per tonne)					Total daily turnover 8,636 lots	
Cash	5925-35	5940-45	5910	5905-10		
3 months	5990-6000	6005-10	6040/5973	5974-75	5990-95	47,282 lots
Tin ($ per tonne)					Total daily turnover 2,406 lots	
Cash	5550-55	5565-70		5550-55		
3 months	5620-25	5625-27	5626/5600	5610-15	5605-10	9,050 lots
Zinc, Special High Grade ($ per tonne)					Total daily turnover 11,349 lots	
Cash	1009-10	1010-111	1005.5/1005	1005.5-06		
3 months	1027-28	1029-30	1029/1023	1024-25	1029-29.5	66,327 lots
LME Closing £/$ rate:						
SPOT: 1.5707	3 months: 1.5598		6 months: 1.5504		9 months: 1.5404	

LONDON BULLION MARKET (Prices supplied by N M Rothschild)

Gold (troy oz)	$ price	£ equivalent
Close	355.10-355.40	
Opening	354.20-354.60	
Morning fix	354.40	225.887
Afternoon fix	354.60	226.066
Day's high	356.00-356.40	
Day's low	353.50-353.80	

Loco Ldn Mean Gold Lending Rates (Vs US$)			
1 month	2.60	6 months	2.36
2 months	2.46	12 months	2.33
3 months	2.41		

Silver fix	p/troy oz	US cts equiv
Spot	277.20	436.00
3 months	281.20	439.10
6 months	285.45	442.70
12 months	294.00	450.15

GOLD COINS	$ price	£ equivalent
Krugerrand	354.50-357.50	225.00-227.00
Maple leaf	365.60-367.95	
New Sovereign	84.00-87.00	53.00-55.00

TRADED OPTIONS

Aluminium (99.7%)	Calls			Puts		
Strike price $ tonne	Jun	Sep		Jun	Sep	
1075	44	73		6	13	
1100	27	56		13	20	
1125	14	42		25	30	
Copper (Grade A)	Calls			Puts		
1800	87	126		26	46	
1850	57	97		45	65	
1900	35	73		73	90	
Coffee	Jul	Sep		Jul	Sep	
850	51	67		25	44	
900	27	45		51	72	
950	14	31		88	108	
Cocoa	Jul	Sep		Jul	Sep	
700	17	40		35	44	
725	10	31		53	60	
750	5	23		73	77	
Brent Crude	Jun	Jul	Aug	Jun	Jul	Aug
1850				8	5	21
1900	18	39		20		
1950	5	18				

New York

GOLD 100 troy oz.; $/troy oz.

	Close	Previous	High/Low	
May	355.7	353.7	0	0
Jun	357.4	354.4	358.6	355.6
Aug	358.9	355.9	360.0	357.0
Oct	360.3	357.3	361.2	359.4
Dec	361.7	358.6	362.6	360.2
Feb	363.1	360.1	364.0	362.5
Apr	364.5	361.5	364.8	364.5
Jun	365.9	362.9	365.5	365.5
Aug	367.4	364.4	0	0

PLATINUM 50 troy oz; $/troy oz.

	Close	Previous	High/Low	
Apr	383.4	381.7	383.0	383.0
Jul	381.6	380.7	390.0	380.0
Oct	388.8	379.9	390.0	383.0
Jan	389.3	379.5	389.0	384.0

SILVER 5,000 troy oz; cents/troy oz.

	Close	Previous	High/Low	
May	435.1	417.9	437.0	428.0
Jun	436.5	419.2	437.5	432.0
Jul	438.0	420.6	440.0	430.0
Sep	440.8	423.6	443.0	434.0
Dec	445.5	427.7	448.0	438.0
Jan	445.7	428.2	0	0
Mar	448.5	431.6	451.0	442.0
May	452.3	434.6	452.0	449.0
Jul	455.2	437.6	458.0	448.0
Sep	458.3	440.7	0	0

HIGH GRADE COPPER 25,000 lbs; cents/lbs

	Close	Previous	High/Low	
May	82.60	83.25	83.05	82.20
Jun	83.00	83.65	0	0
Jul	83.35	84.00	83.80	82.95
Aug	83.70	84.35	0	0
Sep	84.05	84.75	84.45	83.70
Oct	84.35	85.05	0	0
Nov	84.70	85.40	0	0
Dec	85.05	85.80	85.50	84.80
Jan	85.30	86.05	0	0
Feb	85.55	86.35	0	0

CRUDE OIL (Light) 42,000 US galls $/barrel

	Latest	Previous	High/Low	
Jun	20.49	20.19	20.50	20.26
Jul	20.68	20.39	20.68	20.46
Aug	20.78	20.54	20.80	20.64
Sep	20.85	20.63	20.84	20.68
Oct	20.86	20.69	20.84	20.73
Nov	20.85	20.71	20.85	20.77
Dec	20.85	20.73	20.87	20.77
Jan	20.83	20.69	20.83	20.76
Feb	20.79	20.67	20.76	20.75
Mar	20.73	20.65	20.73	20.73

HEATING OIL 42,000 US galls, cents/US galls

	Latest	Previous	High/Low	
May	55.90	55.14	55.90	55.45
Jun	56.45	55.35	56.45	55.70
Jul	56.90	55.79	56.95	56.10
Aug	57.15	56.42	57.20	56.70
Sep	58.00	57.42	58.05	57.60
Oct	58.90	58.37	58.95	58.65
Nov	59.80	59.27	59.70	59.60
Dec	60.70	60.13	60.80	60.50
Jan	61.30	60.58	60.90	60.90
Feb	60.80	60.33	60.80	60.70

COCOA 10 tonnes;$/tonnes

	Close	Previous	High/Low	
May	901	916	913	903
Jul	930	944	939	922
Sep	958	972	964	951
Dec	992	1006	1000	985
Mar	1027	1040	1030	1020
May	1050	1066	0	0
Jul	1070	1083	0	0
Sep	1085	1106	1091	1085
Dec	1125	1138	0	0
Mar	1158	1171	1149	1149

COFFEE "C" 37,500lbs; cents/lbs

	Close	Previous	High/Low	
May	60.50	60.10	60.50	57.80
Jul	62.65	61.10	63.00	59.60
Sep	64.45	63.00	64.80	60.30
Dec	66.75	65.75	67.00	63.00
Mar	68.50	68.25	67.00	65.80
May	71.00	69.75	69.75	67.90
Jul	72.50	71.25	0	0
Sep	74.00	73.00	0	0

SUGAR WORLD "11" 112,000 lbs; cents/lbs

	Close	Previous	High/Low	
May	12.50	12.40	12.50	12.02
Jul	12.64	12.69	12.67	12.42
Oct	12.21	12.02	12.22	11.88
Mar	11.30	11.25	11.34	11.18
May	11.28	11.17	11.27	11.14
Jul	11.24	11.11	11.15	11.14

COTTON 50,000; cents/lbs

	Close	Previous	High/Low	
May	59.50	58.82	59.50	58.82
Jul	61.22	60.26	61.29	60.10
Oct	62.25	61.17	62.00	61.15
Dec	61.56	60.43	61.70	60.40
Mar	62.63	61.60	62.50	61.90
May	63.35	62.20	62.75	62.40
Jul	63.77	62.77	0	0
Oct	63.30	63.00	0	0

ORANGE JUICE 15,000 lbs; cents/lbs

	Close	Previous	High/Low	
May	87.70	86.35	88.40	87.55
Jul	91.40	91.90	91.50	90.00
Sep	94.15	94.80	95.00	94.00
Nov	96.25	97.10	97.00	96.40
Jan	99.25	100.10	100.00	99.25
Mar	101.00	101.60	102.00	101.70
May	103.75	101.60	103.60	103.50
Jul	100.75	101.60	0	0
Sep	100.75	101.60	0	0

INDICES

REUTERS (Base: September 18 1931 = 100)

Apr 29	Apr 28	mnth ago	yr ago
1662.6	1673.0	1714.7	1604.3

DOW JONES (Base: Dec. 31 1974 = 100)

	Apr 28	Apr 27	mnth ago	yr ago
Spot	121.89	122.27	-	118.01
Futures	124.13	125.24	-	118.57

Chicago

SOYABEANS 5,000 bu min; cents/60lb bushel

	Close	Previous	High/Low	
May	588/0	590/0	592/4	586/0
Jul	590/2	591/4	594/4	587/0
Aug	591/2	592/4	595/0	589/0
Sep	591/4	592/6	535/6	589/4
Nov	595/0	595/4	599/4	592/4
Jan	601/6	603/0	605/4	599/0
Mar	608/4	610/0	610/0	608/0
May	612/4	613/2	614/0	610/0

SOYABEAN OIL 60,000 lbs; cents/lb

	Close	Previous	High/Low	
May	20.91	21.09	21.11	20.86
Jul	21.16	21.35	21.38	21.11
Aug	21.28	21.46	21.49	21.25
Sep	21.39	21.57	21.58	21.36
Oct	21.45	21.66	21.70	21.49
Dec	21.72	21.94	21.95	21.68
Jan	21.83	22.00	21.98	21.82
Mar	22.03	22.20	22.18	21.98

SOYABEAN MEAL 100 tons; $/ton

	Close	Previous	High/Low	
May	184.6	185.2	185.1	184.2
Jul	186.1	186.1	187.4	185.4
Aug	186.8	186.5	187.7	186.1
Sep	187.4	187.4	188.2	186.8
Oct	187.5	187.4	188.0	187.6
Dec	188.7	188.6	189.3	188.2
Jan	188.8	188.9	189.2	188.2
Mar	189.4	189.2	190.0	189.3

MAIZE 5,000 bu min; cents/56lb bushel

	Close	Previous	High/Low	
May	224/2	223/2	224/4	223/4
Jul	228/6	228/2	229/4	228/4
Sep	233/0	232/2	233/6	232/4
Dec	237/0	236/2	237/6	236/6
Mar	243/4	242/6	244/2	243/2
May	248/0	247/4	248/2	248/0
Jul	251/4	251/0	252/0	251/2
Dec	247/4	247/0	248/2	247/0

WHEAT 5,000 bu min; cents/60lb-bushel

	Close	Previous	High/Low	
May	343/6	350/6	348/4	342/4
Jul	298/2	300/4	300/6	296/2
Sep	301/4	303/6	303/4	299/0
Dec	311/4	314/2	313/6	309/4
Mar	317/0	319/0	318/0	315/0
Jul	316/0	315/2	315/4	315/0

LIVE CATTLE 40,000 lbs; cents/lbs

	Close	Previous	High/Low	
Apr	78.950	78.775	77.025	76.775
Jun	73.900	73.625	73.950	73.650
Aug	71.825	71.500	71.875	71.475
Oct	74.750	74.175	74.850	74.200
Dec	74.375	74.125	74.475	74.500
Feb	74.175	73.900	74.350	74.025
Apr	75.175	75.000	75.250	75.000
Jun	72.500	72.375	72.550	72.400

LIVE HOGS 40,000 lb; cents/lbs

	Close	Previous	High/Low	
Jun	52.300	51.900	52.350	51.800
Jul	51.325	51.050	51.350	50.700
Aug	48.625	48.450	48.850	48.175
Oct	43.050	42.925	43.100	42.500
Dec	43.950	43.775	44.000	43.600
Feb	43.950	44.000	0	43.800
Apr	42.700	42.700	42.800	42.600
Jun	47.800	47.800	0	0

PORK BELLIES 40,000 lbs; cents/lb

	Close	Previous	High/Low	
May	42.875	43.975	43.700	42.400
Jul	44.025	44.975	44.850	43.825
Aug	42.000	42.900	42.400	41.350
Mar	41.000	41.200	41.500	40.650
Apr	40.025	40.250	0	40.000
May	42.000	42.500	0	42.000

Early losses reduced in steadier trade

By Terry Byland, UK Stock Market Editor

PRESSURE ON stock index futures appeared to relax a little yesterday, much to the relief of London share traders. Although the stock market gave further ground, the final picture was much less gloomy. In spite of being upset at first by a fresh setback in UK government bonds, equities halved early losses after the FT-SE 100 Index bounced from the 2,773 area, regarded as the bottom end of the trading range.

Good first-quarter results from ICI, now on the verge of its demerger move, helped sentiment. Managers at many of the big institutions were locked in meetings yesterday as final decisions were made regarding investment in Zeneca, the drugs and bio-science side of the demerged ICI.

Early dealings saw the Footsie down by 23 points until some initial nervousness in stock index futures was offset by news that the Bank of France was lowering its two key interest rates.

Rate cuts in France, following similar moves in German money rates, fulfilled hopes in the London markets, but the impact was muffled by the weakness seen in UK equities since the beginning of this week.

However, the reduced pressure on the June futures contract on the FT-SE 100 Index was a more positive sign for UK equities. Shares rallied in modest trading and the fall in the Footsie had been trimmed to about 8 points when traders turned nervous again ahead of the opening of the New York market.

Wall Street started cautiously, and the Dow Average was 16.75 off in London hours. But more important for UK traders was the absence of the cohorts of US sellers which hit the Footsie future on Wednesday. The stock market eased back towards the close but little selling pressure was reported.

The final reading showed the FT-SE 100 at 2,786.8 for a net fall of 10.5 points. Dealers said the final two hours of the session had seen a good deal of switching as securities houses put their books in order ahead of the three-day weekend in London which begins tonight.

Basket trading between the futures and the underlying equity market continued, albeit on a reduced scale, so that business in blue chip issues again outpaced that in the second liners. The FT-SE Mid 250 Index shed 11.3 to 3,110.4, while non-Footsie business slipped lower to total around 56 per cent of the day's Seaq volume of 542.1m shares. On Wednesday, Seaq volume of 699.1m was worth £1.39bn in retail business, an average but not exciting daily figure.

Market strategists expressed relative confidence in the new levels of the UK stock market. At Panmure Gordon, Mr Robin Aspinall commented that the setback prompted this week by action in the futures market only had such effect "because the market has been so lacklustre".

Mr Nicholas Knight, London's super bull, reviewing the "pros and cons" of the market, suggested that "the pros are in danger of being conned by the bear move".

The strategy team at Natwest Securities headed its advice to clients "Seller beware", stressing the better performance than expected from economic indicators. The easing of credit stance at the Bundesbank, Natwest comments, might have reduced the possibility of a rise in UK interest rates.

TRADING VOLUME IN MAJOR STOCKS

	Volume 000's	Closing Price	Day's change
ASDA Group	7,600	67½	
Abbey National	1,600	378	-8
Albert Fisher	4,100	64	
Allied-Lyons	678	567	-8
Amstrad	81	34½	
Anglian Water	744	492	-4
Argos	1,200	309	-3
Argyll Group	3,600	335	
Arjo Wiggins	1,300	193	-1
Ass. Brit. Foods	554	483	-3
Ass. Brit. Ports	408	393	+5
BAA	774	749	-3
BAT Inds.	3,200	838	
BET	947	99½	+½
BICC	854	349	-6
BOC	1,000	701	+7
BP	8,600	285½	+4
BPB Inds.	357	227	+1
BT	14,000	403	-3½
BTR	7,500	594	-8
Bank of Scotland	1,200	133	+1
Barclays	5,800	422	-7½
Bass	1,000	535	-4
Blue Circle	1,500	243	
Booker	378	378	
Boots	3,100	451	-11
Bowater	859	492	-2
Brit. Aerospace	1,600	313	-5
British Airways	2,700	279	-3
British Gas	6,600	302	-2
British Land	334	246	-3
British Steel	9,100	91	
Burmah	307	131	-2
Burmah Castrol	322	730	+5
Burton	2,200	80	-1½
Cable & Wire	3,100	680	-4
Cadbury Schweppes	1,700	462	-4
Calor Group	9	255	
Carlton Comms.	414	743	+2
Coats Viyella	2,200	237	
Comm. Union	569	586	+2
Cookson	1,500	200	+4
Courtaulds	733	554	

Based on the trading volume for a selection of Alpha securities dealt through the SEAQ system yesterday until 4.30pm. Trades of one million or more are rounded down.

Switch in oils by US funds

LARGE switching from Shell Transport to British Petroleum by US funds was responsible for driving the latter sharply higher against the market and leaving Shell languishing. The switching included one block of 5m Shell shares traded at 568½p and several large lines of BP at 282½p.

At the close, BP was 4 higher at 285½p after keen turnover of 8.6m, while Shell was 3½ off at 530½p on heavy turnover of 9.3m, the highest single-day's business since November last year.

BP shares, among the Footsie's best performers since the turn of the year, have come back sharply in the past couple of weeks, reflecting the steep rise in sterling. BP announced recently that US investors now speak for more than 25 per cent of the company's shares.

ICI pleases

Heavy trading followed the announcement of higher first-quarter results from ICI, with concentrated share buying in the London market boosted by demand in the unofficial "grey" market.

It was expected that ICI would pull something out of the hat for the last set of figures before its impending demerger and consequently the pre-tax figure would be comfortably above the consensus forecast of £180m. However, £233m was better than the most confident predictions.

In spite of a certain amount of caution in the accompanying statement, the stock shot up 43 on the announcement and closed 31 ahead at 1278p after very heavy turnover of 4.7m. In the grey market operated by US investment bank Salomon Brothers, ICI "new" were quoted sharply higher at 580p while Zeneca held steady at around 705p, with dealers talking of additional volume of around 1m shares.

Tiphook hit

Container leasing group Tiphook was the market's biggest casualty yesterday, the shares plunging over 36 per cent at one point after a shock profits warning.

At their worst, the shares touched 186p. They later stabilised to end 63 lower at 230p on heavy turnover of 7.4m.

Tiphook said its second-half profits would not match those of the first half but the final dividend would be not less than 14.4p, indicating that the dividend total would be 19.3p, against last year's 17.3p.

Analysts had previously been expecting Tiphook to achieve profits of some £75m. After the warning, however, estimates were chopped to around £58m.

Rolls-Royce slides

Aero engine manufacturer Rolls-Royce was hit by a credit downgrading which outweighed the feeling that the US might be about to turn buyer of aerospace stocks.

The announcement by Moody's Investors Service that it was considering a downgrade of the company's A2 senior debt prompted the shares to slide quickly. Moody's is concerned about persistent weakness of the commercial and military markets for the company's jet engines and engine spares.

Later, the market learned that US investment house Lehman Brothers had turned buyer of Boeing. Analysts said that because US shifts tend to revolve around sectors rather than specific stocks there was a chance of Rolls-Royce benefiting from the change of heart.

However, Mr Nick Cunningham from SGST said: "Moody's is pointing to fundamental problems that Rolls-Royce faces. It is a very late cycle industry and people are being overly optimistic." The shares closed 4 down at 129p.

Drugs issue Wellcome fell 13 to 722p as a press report gave an opportunity to mark down the stock. The article said an Aids victim's widow was suing the company and a health authority over her haemophiliac husband's death, which she believed was hastened by Wellcome's anti-Aids drug AZT.

An early rise for BAT Industries helped by a buy note from Japanese house Yamaichi was cut back by reports that Philip Morris, of the US, might adopt deeper tobacco discounts if needed. BAT finished unchanged at 838p.

Conglomerate Lonrho rose 5¼ to 93¼p after stating that it had received an acceptable offer for The Observer, the UK Sunday newspaper, from fellow publisher The Guardian and Manchester Evening News.

Meyer International surprised the market by a £70m rights issue, a one-for-four offer at a deeply discounted 290p, to reduce borrowings. The company accompanied the fund-raising with a profits forecast and a warning that the dividend total will be chopped from 16.5p to 10p.

Meyer shares dropped to 348p immediately following the news but rallied to end only 3 off at 365p. UBS was said to have been an aggressive seller and to have decided that any positive move in the shares after a big rights issue and a severe dividend cut was perverse.

The announcement that France had cut both its key rates again by 25 basis points helped companies with heavy exposure to the country, especially marketing and advertising groups, which are geared for early recovery.

Aegis put on 5¼ at 29½p and exhibitions organiser Blenheim rose 15 to 535p. Arjo Wiggins Appleton, which is active in France, closed a penny cheaper at 193p: enthusiasm was tempered by a sector review from Kleinwort Benson which featured the stock as its principal sell recommendation.

First-half results from Kwik Save were largely in line with market expectations, profits leaping 19 per cent, although it warned that this degree of performance would not be maintained in a tougher second half. This together with one leading broker warning of the effects of disinflation left the shares trailing.

However, a more positive analysts meeting brought out the bulls, with the group's strong sales growth being pointed up. The shares turned around 23p during the session to finish 4 ahead at 780p.

A positive agm statement from Hillsdown Holdings helped the shares forward a penny to 157p. Volume was a hefty 12m.

Some investors took another swipe at Boots, this time over worries it was engaging in a price war with Superdrug, owned by Kingfisher. Superdrug is said to be cutting its sun protection product prices by 25 per cent.

Supermarket group Tesco was reported to be also making 30 per cent cuts to its sun care range. However, one stores specialist pointed out that the sun protection business was only 5 per cent of Boots overall sales and that the effect of stiffer price competition would not be great.

Boots shares were badly mauled earlier this week when it announced details of dangers attached to using its Manoplax drug. Yesterday, they fell 11 to 451p. Kingfisher slipped 2 to 588p and Tesco 4½ to 217½p.

Worries about possible litigation instigated by US brokerage PaineWebber unsettled Kleinwort Benson, the merchant bank whose shares dropped 12 to 389p. SG Warburg lost 17 more to 671p with the market said to be unsettled by concern about the group'd tax charge.

British Gas dipped 2 to 302p after news of the retirement of chairman Mr Bob Evans. Lasmo continued to move ahead, adding 3o to 151p, still boosted by hints that Total's fund raising earlier this week could prompt corporate activity in the oil sector. Most of the demand for Lasmo came from the US, according to dealers.

Regent Inns, re-introduced to the market by stockbroker Greig Middleton after a company restructuring and a placing of shares at 135p, closed at 151p, having touched 165p.

Hotel group Forte slipped 2 to 190p. Nomura was advising clients to buy the shares as a cyclical recovery play.

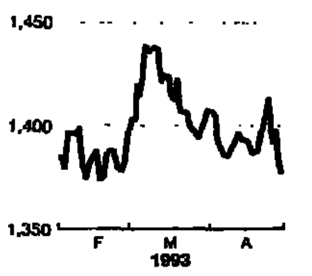
Guinness recovered from recent underperformance to close 8 forward at 476p.

Speculation that a bid for engineering group Fenner might be in the air proved well founded. The group confirmed that it has received indications of interest and the shares shot up to 93 before closing marginally firmer at 85p. Wassall, the mini conglomerate whose name has been linked by the market, fell 3 to 237p.

MARKET REPORTERS:
Peter John,
Steve Thompson,
Christopher Price.

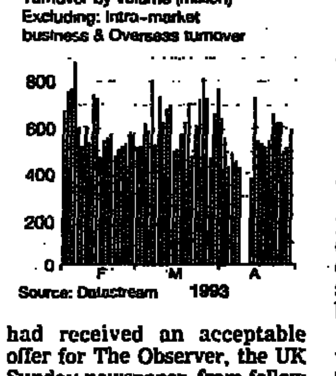
■ Other statistics, Page 22

FT-A All-Share Index



Equity Shares Traded

Turnover by volume (million) Excluding: intra-market business & Overseas turnover



Source: Datastream 1993

Account Dealing Dates

First Dealings:	Option Declarations:	Last Dealings:	Account Day:
Apr 19	May 6	May 7	May 17
May 10	May 20	May 21	Jun 1
May 24	Jun 3	Jun 4	Jun 14

*New time dealings may take place from 8.30am two business days earlier.

FT-SE Actuaries Share Indices

FT-SE 100	FT-SE MID 250	FT-A ALL-SHARE
2786.8 -10.5	3110.4 -11.3	1377.21 -4.97

Hourly movements

FT-SE Actuaries 350 Industry Baskets

NEW HIGHS AND LOWS FOR 1993

FINANCIAL TIMES EQUITY INDICES

LONDON SHARE SERVICE

BRITISH FUNDS

OTHER FIXED INTEREST

Continued on next page

EQUITY FUTURES AND OPTIONS TRADING

A QUIETER but still heavy day's trading in the futures yesterday brought hints that the selling pressure of recent sessions may be easing, writes Christopher Price.

The June contract on the FT-SE 100 opened weakly at 2,763 as worries persisted over the interest of US speculators and the bearish sentiment over the UK equity market.

However, the contract then hit another bout of sustained selling and June tumbled to a day's low of 2,767.

This level brought out the buyers, dealers reporting that these included some of the previous day's biggest sellers – suggesting that at least some of the bearish view of the market may have been exhausted.

June rallied throughout the rest of the day, suffering continuing short periods of volatility. It finished at 2,788, two points ahead of the cash market but around 4 points below its fair value level. Volume was a bulky 13,300 contracts.

One seasoned dealer said the contract was likely to trade within a 70-point range in the short term, with selling pressure probable up to a level of 2,820 and buying at the 2,750 mark.

Traded options were busier, with several stocks recording large trades. BTR led the way with 5,560 contracts dealt, followed by Shell (5,005), Hillsdown (5,004) and Lonrho (3,368). The overall total was 47,286 lots, of which 11,862 were in the FT-SE 100 option.

AMERICANS

	Notes	Price £	+ or -	1993 high	1993 low	Mkt Cap£m	Yld Gr's
Abbott Labs		17½xd	-⅛	20⅞	15⅛	14,046	2.4
Allegheny & W	♥	487p	—	571p	399p	253.1	3.9
Amdahl		350p	-7	691p	350p	393.1	1.8
Amer Cyanamid		33	-⅛	38⅝	31¾	2,875	3.1
Amer Express		17⅜xd	-⅛	18½	14⅞	6,395	3.6
Amer T & T		38¼xd	—	40⅞	33¼	48,042	2.3
Ameritech		47⅞	-⅞	52¾	45	20,861	4.8
BankAmerica		29⅜xd	+⅛	38¼	27⅝	10,305	3.0
Bankers NY		44½xd	+⅛	51⅞	42⅞	3,571	4.4
Bell Atlantic		33	-½	38⅝	32¼	14,286	5.1
BellSouth		33¾	-⅛	39⅞	33½	18,872	5.2
Bethlehem Steel	♥	12xd	-¼	13¾	10	1,086	-
Bowater		1378pxd	-15	1682p	1335p	498.6	1.8
CPC		28½xd	-⅛	34⅞	26	3,994	3.1
Cadiz Land Inc	♥	61p	—	115p	53p	-	-
California Engy		1342p	—	1479p	1086p	244.3	-
Chase Manhattan		19⅝xd	-⅛	24½	17⅞	2,985	4.0
Chrysler		26xd	+⅛	28⅞	21¼	7,613	1.5
Citicorp		17½xd	+⅛	20⅞	13⅞	6,307	-
Colgate-Palm		36⅞xd	-½	45⅞	35¼	5,887	2.1
Cont'l Bank		1511p	+17	1877p	1278p	1,526	2.6
Dana		36⅞xd	+⅛	34⅜	29⅞	1,417	3.3
Data General		620p	+16	987p	549p	171.1	-
Decora Inds	♥	126p	—	146p	109p	-	-
Dun & Brad		37⅞	+⅛	42¾	37¼	6,726	4.1
Eaton		58½	+1⅛	59⅝	50⅝	2,036	2.4
Echlin		15⅝xd	+⅛	18⅞	15⅞	885.5	2.8
FPL		23⅞xd	+⅛	27⅞	23¼	4,337	6.5
[illegible]							

CANADIANS

[illegible]

BANKS

[illegible]

BREWERS & DISTILLERS

[illegible]

BUILDING MATERIALS

[illegible]

BUILDING MATERIALS - Cont.

[illegible]

BUSINESS SERVICES

[illegible]

CHEMICALS

[illegible]

CONGLOMERATES

[illegible]

CONTRACTING & CONSTRUCTION

[illegible]

ELECTRICALS

[illegible]

ELECTRICITY

[illegible]

ELECTRONICS

[illegible]

ENGINEERING-AEROSPACE

[illegible]

ENGINEERING-GENERAL

[illegible]

ENGINEERING-GENERAL - Cont.

[illegible]

FOOD MANUFACTURING

[illegible]

FOOD RETAILING

[illegible]

HEALTH & HOUSEHOLD

[illegible]

HOTELS & LEISURE

[illegible]

HOTELS & LEISURE - Cont.

[illegible]

INSURANCE BROKERS

[illegible]

INSURANCE COMPOSITE

[illegible]

INSURANCE LIFE

[illegible]

INVESTMENT TRUSTS

[illegible]

INVESTMENT TRUSTS - Cont.

[illegible]

LONDON SHARE SERVICE

INVESTMENT TRUSTS - Cont.

MERCHANT BANKS

METALS & METAL FORMING

MISCELLANEOUS

INVESTMENT COMPANIES

MEDIA

MOTORS

OIL & GAS

OIL & GAS - Cont.

OTHER FINANCIAL

OTHER INDUSTRIALS

PACKAGING, PAPER & PRINTING

PACKAGING, PAPER & PRINTING - Cont.

PROPERTY

STORES

TELEPHONE NETWORKS

TEXTILES

TRANSPORT

WATER

Notes	Price	+ or -	1993 high	low	Mkt Cap£m	Yld Gr's	P/E
Anglian ......§†□	486	-6	553	460	1,444	4.9	8.9
Bristol Water ......§†	938	-4	945	775	55.2	3.7	12.0
Cheam A ......†	256	—	268	185	18.0	3.6	11.8
B N/V ......†	243	—	245	180	5.83	3.9	11.2
East Surrey ......†	335	—	345	270	42.1	3.8	8.6
Mid Kent ......†	300	—	300	244	51.3	4.0	9.6
North West ......†□	478	-5	533	449	1,711	5.1	8.4
Northumbrian ......§†□	613	-6	652	547	412.5	4.2	6.3
Severn Trent ......§†□	476	-5	533	439	1,694	5.1	6.9
Southern ......†□	490	-8	554	464	812.4	5.0	8.6
South Staffs ......†	1320	—	1325	1225	71.3	3.8	8.5
South West ......§†□	501	-5	560	457	624.2	5.4	7.8
Thames ......§†□	489	-3	583	468	1,948	4.8	9.4
Welsh ......†□	551	-1	612	506	795.1	4.9	6.4
Wessex ......†g□	603	-5	*640	536	746.5	4.0	8.1
Yorkshire ......§†□	529	-5	593	506	1,051	4.6	8.6

SOUTH AFRICANS

Notes	Price	+ or -	1993 high	low	Mkt Cap£m	Yld Gr's	P/E
Anglo Am Ind.	28¾	—	£10¾	27½	570.3	7.2	8.0
Barlow Rand	29½	—	£10⅝	55⅞	1,164	5.8	3.3
Gold Flds Prop	58	—	63	49	5.89	17.2	4.9
NK Props. ......h	86	—	97	62	3.42	15.4	3.6
OK Bazaars ......‡	85	—	116	71	65.3	‡	-
SASOL ......♥	265	—	300	215	1,488	5.9	φ
SA Brews	813	—	980	763	4,325	3.0	φ
Tiger Oats	663	—	758	538	845.7	2.8	12.8
Tongaat-Hulett	300	—	300	212	241.0	4.9	7.9

PLANTATIONS

MINES

MINES - Cont.

GUIDE TO LONDON SHARE SERVICE

Company classifications are based on those used for the FT-Actuaries Indices and FT-Actuaries World Indices.

Closing mid-prices are shown in pence unless otherwise stated. Highs and lows are based on intra-day mid- prices.

Where stocks are denominated in currencies other than sterling, this is indicated after the name.

Symbols referring to dividend status appear in the notes column daily as a guide to yields and P/E ratios. Dividends and Dividend covers are published on Monday.

Market capitalisation shown is calculated separately for each line of stock quoted.

Estimated *price/earnings* ratios are *based* on latest annual reports and accounts and, where possible, are updated on interim figures. P/Es are calculated on "net" distribution basis, earnings per share being computed on profit after taxation, excluding exceptional profits/losses and unrelieved ACT where applicable. Yields are based on mid-prices, are gross, adjusted *for a dividend tax credit of 20 per cent and allow for value of declared* distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current pre-closing share price. The NAV basis assumes prior *charges at par value, convertibles converted and warrants exercised if* dilution occurs.

- □ Indicates the most actively traded stocks. This includes UK stocks where transactions and prices are published continuously through the Stock Exchange Automated Quotation system (SEAQ).
- ● "Tap Stock"
- * Highs and lows marked thus have been adjusted to allow for rights issues for cash
- † Interim since increased or resumed
- ‡ *Interim since reduced, passed or deferred*
- ‡‡ Tax-free to non-residents on application
- φ Figures or report awaited
- ♥ Not officially UK listed; dealings permitted under rule 535(4)(a)
- § Free annual/interim report available, see details below.
- ☆ USM: not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- †† Not officially UK listed; dealings permitted under Rule 535(2)
- ∥ Price at time of suspension
- ¶ Indicated dividend yield after pending scrip and/or rights issue.
- ♦ Merger bid or reorganisation in progress
- § *Forecast dividend yield; p/e based on earnings updated by latest* interim statement.
- ♠ Unregulated collective investment scheme.

a Yield based on annualised dividend
b Figures based on prospectus or other official estimates.
c Cents.
f Flat yield.
g Assumed dividend yield after rights issue.
h Assumed dividend yield after scrip issue.
n Rights issue pending
q Earnings based on preliminary figures.
s Dividend yield excludes a special payment.
t Indicated dividend yield, p/e ratio based on latest annual earnings.
u Forecast, or estimated annualised dividend yield, p/e based on previous year's earnings
v Not subject to ACT.
z Dividend yield includes a special payment
E Auction basis
F Yield based on prospectus or other official estimates for 1994-95.
G Assumed yield after pending scrip and/or rights issue.
H Yield based on prospectus or other official estimates for 1993.
K Yield based on prospectus or other official estimates for 1992-93
L Estimated annualised yield, p/e based on latest annual earnings.
M Yield based on prospectus or other official estimates for 1993-94.
N Yield based on prospectus or other official estimates for 1992.
P Figures based on prospectus or other official estimates for 1994.
R Forecast annualised yield, p/e based on prospectus or other official estimates.
T Figures assumed.
W Pro forma figures.
Z Dividend yield to date.

Abbreviations:
xd ex dividend;
xc ex scrip issue;
xr ex rights;
xa ex all;
xt ex capital distribution.

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1235 a year for each security shown, subject to the Editor's discretion

FT Annual Reports Service

You can obtain the current annual/interim report of any company annotated with §. Ring +44 81-643 7161 (open 24 hours including weekends) or fax +44 81-770 0544, quoting the code FT1557. Reports will be sent the next working day, subject to availability. Please remember to *state the weekly changing code above.*

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FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (071) 873 4378 for more details.

AUTHORISED UNIT TRUSTS

Guide to pricing of Authorised Unit Trusts

Compiled with the assistance of Lautro §§

INITIAL CHARGE: Charge made on sale of units. Used to defray marketing and administrative costs, including commission paid to intermediaries. This charge is included in the price of units.

OFFER PRICE: Also called issue price. The price at which units are bought by investors.

BID PRICE: Also called redemption price. The price at which units are sold back by investors.

CANCELLATION PRICE: The minimum redemption price. The maximum spread between the offer and bid prices is determined by a formula laid down by the government. In practice, most unit trust managers quote a much narrower spread. As a result, the bid price is often set above the cancellation price. However, the bid price might be moved to the cancellation price by the managers at any time, usually in circumstances in which there is a large excess of sellers of units over buyers.

TIME: The time shown alongside the fund manager's name is the time of the unit trust's valuation point unless another time is indicated by the symbol alongside the individual unit trust name. The symbols are as follows: (♥) - 0001 to 1100 hours; (♣) - 1101 to 1400 hours; (♦) - 1401 to 1700 hours; (♠) - 1701 to midnight. Daily dealing prices are set on the basis of the valuation point; a short period of time may elapse before prices become available.

HISTORIC PRICING: The letter H denotes that the managers will normally deal on the price set on the most recent valuation. The prices shown are the latest available before publication and may not be the current dealing levels because of an intervening portfolio revaluation or a switch to a forward pricing basis. The managers must deal at a forward price on request, and may move to forward pricing at any time.

FORWARD PRICING: The letter F denotes that the managers deal at the price to be set on the next valuation. Investors can be given no definite price in advance of the purchase or sale being carried out. The prices appearing in the newspaper are the most recent provided by the managers.

SCHEME PARTICULARS AND REPORTS: The most recent report and scheme particulars can be obtained free of charge from fund managers.

Other explanatory notes are contained in the last column of the FT Managed Funds Service.

§§ Life Assurance and Unit Trust Regulatory Organisation, Centre Point, 103 New Oxford Street, London WC1A 1QH Tel: 071-379-0444.

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FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (071) 873 4378 for more details.

Sovereign Unit Tst Mngrs Ltd (1000)F
12 Christchurch Rd, Bournemouth 0202 298422

	Init Chrge	Canc Price	Bid Price	Offer Price	+ or -	Yield Gr's
Cash	1	50.65	50.65	51.15		
Ethical Primance	5½	55.67	55.80	59.12	-0.01	0.5
Ethical	6¼	61.58	52.55xd	55.90	-0.34	7.9
European Growth	5½	55.83	56.29	60.00	-0.43	4.0
Income	5½	61.90	52.78	55.87	-0.56	1.1
Intl Growth	5½	77.40	77.97	83.18	-0.73	5.8
Managed	5½	68.10	68.85	73.43	-0.41	2.9
UK Growth	5½	54.74	55.33	59.01	-0.94	4.7

Standard Life Tst Mngmt Ltd (0730)H
3 George St, Edinburgh EH2 2XZ 0800 393777

State Street Unit Trust Mngmt Ltd (1200)F
20 Birchin Lane, London EC3V 9AD 071-628 1599

Stewart Ivory Unit Tst Mgrs Ltd (1200)H
45 Charlotte Sq, Edinburgh 031-226 3271

Funds in Court*
*Restricted to monies under Court control

Govett (John) Unit Mngmt Ltd

Henderson Unit Trust Management Ltd

INVESCO MIM Management Ltd

Lazard Brothers & Co. Ltd

Lazard Investors Ltd ‡

Local Authorities Mutual Invest. Tst.*
2 Fore Street, London EC2Y 5AQ 071-588 1815
* Available only to Local Authorities

M & G Securities Ltd

INSURANCES

Allied Dunbar Assurance Plc

American Life Insurance Co UK

OTHER UK UNIT TRUSTS

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (071) 873 4378 for more details.

MANAGEMENT SERVICES

OFFSHORE INSURANCES

OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

CANADA (SIB RECOGNISED)

GUERNSEY (SIB RECOGNISED)

GUERNSEY (REGULATED)(**)

ISLE OF MAN (SIB RECOGNISED)

IRELAND (SIB RECOGNISED)

ISLE OF MAN (REGULATED)(**)

JERSEY (SIB RECOGNISED)

IRELAND (REGULATED)(**)

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FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (071) 873 4378 for more details.

JERSEY (REGULATED)(**)

	Bid Price	Offer Price	+ or -	Yield Gross
Barclays Intl Funds				
Asian Selection Funds				
China	$9.584	10.087		
Hong Kong	$28.811	30.327	---	0.0
Indonesia	$9.352	9.844	---	0.4
Korea	$10.892	11.478	---	0.0
Malaysia	$17.208	18.058	---	0.0
Philippines	$17.741	18.675	---	0.0
Singapore	$11.864	12.457	---	0.0
Thailand	$20.119	21.178	---	0.0
South East Asia	$24.649	25.946	---	0.0
US Dollar Liquidity	$9.552	10.000	---	0.9
Cater Allen Investment Management (CI)				
CA Gilt Income	98.11	9.38	---	15.67
CA Equity Gwth	14.48	4.80	---	2.24
Citibank (CI) Ltd "Citifunds"				
Short term Investment Funds				
Irish £ Apr 29	133.8708		---	-
Equity Funds				
Japan Equity Apr 29	$9.7900		---	-
US Em Hlth Apr 26	$19.2413		---	-
US Em Tech Apr 26	$22.5045		---	-
Citicorp Apr 26	$29.5480		---	-
Bond Funds				
HYB (A) Apr 26	$93555.432		---	-
Special Assets (B) Apr 1	FFr11275.473		---	-
Citibank N.A.				
Libra 2000 Feb 26	$99.62		---	-
Libra 2000 Intl Feb 26	$99.62		---	-
Coutts & Co (Jersey) Fund Managers Ltd				
Coutts Money Market Fund Ltd				
Dollar Class	$38.4919			-

	Init Chrge	Canc Price	Bid Price	Offer Price	+ or -	Yield Gr's
CMI Asset Management (Luxembourg) SA						
203 route d'Arlon, L-1150 Lux 010 352 458829						
CMI Managed Portfolio Investment Company (u)						
Safeguard Portfolio F		£-	1.210	1.280		-
Growth Portfolio F		£-	1.075	1.145	-0.004	-
Enterprise Portfolio F		£-	1.024	1.091	-0.002	-
CMI Global Network Fund (u)						
Australasian Equity		A$-	12.841		-0.229	-
Benelux Equity		Dfl-	21.193		-0.139	-
Canadian Equity		C$-	9.801		+0.018	-
SE Asia Equity		$-	12.853		-0.117	0.85
French Equity		FFr-	00.244		-0.115	0.04
German Equity		DM-	17.880		-0.070	-
Iberian Equity		Pta-	717		-2	0.01
Irish Equity		£-	4.382		-0.001	-
Italian Equity		L-	7870		-107	-
Japanese Equity		Y-	1357		+1	-
Nordic Equity		SKr-	49.720		+0.547	-
Swiss Equity		SFr-	19.470		-0.181	-
UK Equity		£-	8.408		-0.059	1.11
US Equity		$-	13.448		+0.054	0.95
Japan Index Tracking		Y-	918			-
UK Eqty Index Tracking		£-	8.018		-0.121	2.23
US Eqty Index Tracking		$-	12.098		-0.130	1.18
German Bond		DM-	23.205		-0.030	6.10
Japanese Bond		Y-	1848		+18	4.14
Swiss Bond		SFr-	22.309		-0.012	4.30
UK Bond		£-	6.214		-0.002	8.01
US Bond		$-	11.780		-0.001	8.21
Stlg Currency Reserve		£-	5.0273		+0.001	7.17
US Dlr Currency Reserve		$-	10.0184		-0.012	2.04
Commercial Union Luxembourg SA (u)						
41 Ave de la Gare L-1611 010 352 402820201						
Commercial Union Privilege Portfolio						
Equity Funds						

	Bid Price	Offer Price	+ or -	Yield Gross
Intl Growth Fd	$13.65	14.33	---	-
Wells Fargo U.S. IT Fund				
Wells Fargo A Shs (z)	$12.33		---	-
Wells Fargo B Shs (z)	$12.83		-0.11	-
Worldwide Limited				
NAV Feb 28	$81.00		---	-
Xiphias International Investment Fd Ltd				
Xiphias Intl US$ Acc	$1.2108		---	-
Xiphias Intl ECU Acc	Ecu1.2086		---	-
Xiphias Intl ECU Dis	Ecu1.0880		---	-
Yamaichi Capital Mngmt (Guernsey) Ltd				
Thai Inv Fund	$12.87		-0.55	-

MANAGED FUNDS NOTES

Prices are in pence unless otherwise indicated and those designated $ with no prefix refer to U.S. dollars. Yields % allow for all buying expenses. Prices of certain older insurance linked plans subject to capital gains tax on sales. Distribution free of UK taxes. Periodic premium insurance plans. Single premium insurance. Designated in Luxembourg as a UCITS (Undertakings for Collective Investment in Transferable Securities). Offered price includes all expenses except agent's commission. Previous day's price. Guernsey gross. Suspended. Yield before Jersey tax. Ex-subdivision. Only available to charitable bodies. Yield column shows annualised rates of NAV increase. All as dividend.

(**) Funds not SIB recognised. The regulatory authorities for these funds are: Guernsey: Financial Services Commission; Ireland: Central Bank of Ireland; Isle of Man: Financial Supervision Commission; Jersey: Financial Services Department; Luxembourg: Institut Monétaire Luxembourgeois.

FOREIGN EXCHANGES

GDP figure subdues the dollar

THE DOLLAR was depressed by a poorer than expected headline figure for US growth yesterday, but recovered in the European afternoon on closer inspection of the data, *writes James Blitz.*

US GDP in the first quarter of this year expanded at an annual rate of 1.8 per cent, compared to market expectations of a 2.6 per cent rise.

Shortly before the indicator was released, the dollar was trading at DM1.5770 to the D-Mark. It then fell more than a pfennig to bottom out at DM1.5693.

However, the US currency recovered on a closer analysis of the data, which suggested that underlying growth was relatively strong.

According to Mr Jeremy Hawkins, economic adviser at Bank of America in London, the headline GDP figure was depressed by a record monthly drop in US military spending. He also believes that, if storm damage during the first three months of 1993 is taken into account, underlying growth was in the order of 3.5 per cent.

The dollar closed in London at DM1.5815, down more than ½ a pfennig on the day. Towards the close of European trading, the currency remained immobile as dealers awaited the outcome of the G7 finance ministers meeting in Washington.

In Europe, the main focus was on the continuing appreciation of the French franc against the D-Mark in the wake of this week's easing in German monetary policy.

For the first time this year, the French franc pierced the FFr3.37 level against the German currency to close at FFr3.369 from a previous FFr3.374.

A stronger sign of the French currency's strength was the narrowing of the spread between 3-month francs and D-Marks, now down to 18 basis points, indicating the withering away of the franc's premium against devaluation.

Earlier this week, Mr Hans Tietmeyer, the Bundesbank vice president said there was no reason why French rates should not go below German ones. However, a big discount to German rates is unlikely. The French authorities would be wary of lowering French official rates too far for fear of having to instantly reverse an interest rate cut as they did in the winter of 1991.

There were indications, too, yesterday that Mr Schlesinger was troubled by the sharp fall in German bunds following the cut in the repo rate this week. After a dovish newspaper interview earlier this week, Mr Schlesinger yesterday said that Germany had not beaten its inflation problem.

The Spanish peseta was affected by these comments and fell back in late trading. It closed at Pta73.20 to the D-Mark from a previous Pta73.07.

Sterling weakened gently throughout the day on suspicions that the Bank of England was selling pound to boost foreign exchange reserves. The pound closed ¾ of a pfennig down on the day at DM2.4850.

£ IN NEW YORK

Apr.29	Latest	Previous Close
£ Spot	1.5710-1.5720	1.5735 1.5745
1 month	*0.39-0.38pm*	*0.36 0.35pm*
3 months	1.17-1.15pm	1.13 1.11pm
12 months	4.23-4.15pm	4.10 4.00pm

Forward premiums and discounts apply to the US dollar

STERLING INDEX

	Apr.29	Previous
8.30 am	80.9	81.4
9.00 am	80.8	81.4
10.00 am	80.8	81.4
11.00 am	80.9	81.2
Noon	80.9	81.2
1.00 pm	81.0	81.2
2.00 pm	80.8	81.2
3.00 pm	80.7	81.2
4.00 pm	81.0	81.1

CURRENCY RATES

Apr 29	Bank % rate	Special * Drawing Rights	European † Currency Unit
Sterling	-	0.902631	0.787038
U.S Dollar	3.00	1.41686	1.23678
Canadian $	5.37	1.80409	1.57367
Austrian Sch	6.75	15.8648	13.7530
Belgian Franc	6.75	46.4234	40.2047
Danish Krone	9.25	8.69173	7.52188
D-Mark	7.25	2.25621	1.95480
Dutch Guilder	6.75	2.53150	2.19624
French Franc	10	N/A	6.58370
Italian Lira	11.00	2098.81	1821.26
[illegible]	[illegible]	[illegible]	[illegible]

CURRENCY MOVEMENTS

Apr 29	Bank of England Index	Morgan Guaranty Changes %
[illegible]	[illegible]	[illegible]

Morgan Guaranty changes: average 1980-1982=100. Bank of England Index (Base Average 1985=100). *Rates are for Apr.28

OTHER CURRENCIES

Apr 29	£	$
[illegible]	[illegible]	[illegible]
Kuwait	0.47200 - 0.47300	0.30050 - 0.30100
Luxembourg	51.10 - 51.30	32.50 - 32.60
Malaysia	4.0310 - 4.0415	2.5700 - 2.5710
Mexico	4.8875 - 4.8906	3.1100 - 3.1120
N.Zealand	2.8860 - 2.8900	1.8365 - 1.8390
Saudi Ar	5.8825 - 5.8945	3.7495 - 3.7505
Singapore	2.5325 - 2.5390	1.6155 - 1.6165
S.Af (Cm)	4.9480 - 4.9580	3.1500 - 3.1520
S.Af (Fn)	7.1665 - 7.2055	4.5730 - 4.5850
Taiwan	40.70 - 40.85	25.90 - 26.00
U.A.E.	5.7640 - 5.7770	3.6715 - 3.6735

EMS EUROPEAN CURRENCY UNIT RATES

	Ecu Central Rates	Currency Amounts Against Ecu Apr 29	% Change from Central Rate	% Spread vs Weakest Currency	Divergence Indicator
Irish Punt	0.808996	0.801801	-1.01	2.01	52
Dutch Guilder	2.20045	2.19624	-0.19	1.17	16
Belgian Franc	40.2802	40.2047	-0.19	1.16	16
D-Mark	1.95294	1.95480	0.10	0.88	3
Portuguese Escudo	*180.624*	*181.060*	*0.24*	*0.73*	-4
French Franc	6.54988	6.58970	0.61	0.36	-26
Spanish Peseta	142.150	143.092	0.66	0.31	-12
Danish Krone	7.44934	7.52168	0.97	0.00	-38

Ecu central rates set by the European Commission. Currencies are in descending relative strength. Percentage changes are for Ecu: a positive change denotes a weak currency. Divergence shows the ratio between two spreads: the percentage difference between the actual market and Ecu central rates for a currency, and the maximum permitted percentage deviation of the currency's market rate from its Ecu central rate.
(17/9/92) Sterling and Italian Lira suspended from ERM. Adjustment calculated by Financial Times.

POUND SPOT - FORWARD AGAINST THE POUND

Apr 29	Day's spread	Close	One month	% p.a.	Three months	% p.a.
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Commercial rates taken towards the end of London trading. Six-month forward dollar 2.23-2.18pm. 12 Month 4.20-4.10pm.

DOLLAR SPOT - FORWARD AGAINST THE DOLLAR

Apr 29	Day's spread	Close	One month	% p.a.	Three months	% p.a.
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Commercial rates taken towards the end of London trading. † UK, Ireland and Ecu are quoted in US currency. Forward premiums and discounts apply to the US dollar and not to the individual currency.

EURO-CURRENCY INTEREST RATES

Apr 29	Short term	7 Days notice	One Month	Three Months	Six Months	One Year
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

EXCHANGE CROSS RATES

Apr.29	£	$	DM	YEN	F Fr.	S Fr.	N Fl.	Lira	C$	B Fr.	Pta	Ecu
£	1	1.571	2.485	175.2	8.372	2.247	2.792	2316	1.998	51.15	181.9	1.270
$	0.637	1	1.582	111.5	5.329	1.430	1.777	1474	1.272	32.56	115.8	0.808
DM	0.402	0.632	1	70.50	3.369	0.904	1.124	932.0	0.804	20.58	73.20	0.511
YEN	5.708	8.967	14.18	1000	47.79	12.83	15.94	13219	11.40	292.0	1038	7.249
F Fr.	1.194	1.876	2.968	209.3	10.	2.684	3.335	2765	2.387	61.10	217.3	1.517
S Fr.	0.445	0.699	1.106	77.97	3.726	1	1.243	1031	0.889	22.76	80.95	0.565
N Fl.	0.358	0.563	0.890	62.75	2.999	0.805	1	829.5	0.716	18.32	65.15	0.455
Lira	0.432	0.678	1.073	75.65	3.615	0.970	1.206	1000.	0.863	22.09	78.54	0.548
C $	0.501	0.786	1.244	87.69	4.190	1.125	1.397	1159	1	25.60	91.04	0.636
B Fr.	1.956	3.071	4.858	342.5	16.37	4.393	5.458	4528	3.906	100.	355.6	2.483
Pta	0.550	0.864	1.366	96.32	4.603	1.235	1.535	1273	1.098	28.12	100.	0.698
Ecu	0.787	1.237	1.957	138.0	6.592	1.768	2.198	1824	1.573	40.28	143.2	1.

Yen per 1,000: French Fr. per 10: Lira per 1,000: Belgian Fr. per 100: Pesets per 100.

FINANCIAL FUTURES AND OPTIONS

[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Estimated volume 14944 (23593)
Previous day's open int. 46818 (45958)

* Contracts traded on APT. Closing prices shown.

POUND - DOLLAR

FT FOREIGN EXCHANGE RATES

Spot	1-mth.	3-mth.	6-mth.	12-mth.
1.5710	1.5671	1.5597	1.5490	1.5295

BASE LENDING RATES

	%		%		%
Adam & Company	6	Cyprus Popular Bank	6	Mount Banking	6
Allied Trust Bank	6	Duncan Lawrie	6	NatWestminster	6
AIB Bank	6	Equatorial Bank plc	6	•Nykredit Mortgage Bnk	6.5
•Henry Ansbacher	6	Exeter Bank Limited	7	•Rea Brothers	6
B & C Merchant Bank	13	Financial & Gen Bank	7	Roxburghe Bank Ltd	6
Bank of Baroda	6	•Robert Fleming & Co	6	Royal Bk of Scotland	6
Banco Bilbao Vizcaya	6	Girobank	6	•Smith & Williamson Secs	6
Bank of Cyprus	6	•Guinness Mahon	6	Standard Chartered	6
Bank of Ireland	6	Habib Bank AG Zurich	6	TSB	6
Bank of India	6	•Hambros Bank	6	Unibank plc	6
Bank of Scotland	6	Heritable & Gen Inv Bk	6	United Bk of Kuwait	6
Barclays Bank	6	•Hill Samuel	6	Unity Trust Bank Plc	6
Brit Bk of Mid East	6	C. Hoare & Co	6	Western Trust	6
•Brown Shipley	6	Hongkong & Shanghai	6	Whiteaway Laidlaw	6
CL Bank Nederland	6	Julian Hodge Bank	6	Yorkshire Bank	6
Citibank NA	6	•Leopold Joseph & Sons	6		
City Merchants Bank	6	Lloyds Bank	6	• Members of British Merchant Banking & Securities Houses Association	
Clydesdale Bank	6	Meghraj Bank Ltd	6		
The Co-operative Bank	6	McDonnell Douglas Bk	6		
Coutts & Co	6	Midland Bank	6		
Credit Lyonnais	6				

MONEY MARKETS

Futures follow bunds

EUROMARK futures contracts continued to fall yesterday, reflecting another sell-off in the German bond market in the wake of this week's repo rate cut, *writes James Blitz.*

The 36-basis point cut in the Bundesbank's repo rate on Wednesday initially took money market dealers by surprise. But, instead of getting bullish about the prospect for more Bundesbank rate cuts, futures dealers were struck yesterday by another ¼ percentage point drop in German 10 year bond prices.

UK clearing bank base lending rate
6 per cent
from January 26, 1993

The bund market has been sold off because of fears that inflation will erode real returns if German monetary policy is eased too quickly.

At the same time, fears of industrial unrest in eastern Germany continued to raise concerns of wage inflation.

The IG Metall trade union announced yesterday that it plans strikes in the state of Saxony on Monday May 3.

These concerns pushed the June Euromark contract down to a close of 92.68 from a previous 92.75. The September contract fell by 11 basis points on the day, closing at 93.48.

By contrast, the mood in French money markets was distinctly upbeat following another cut in France's official interest rates.

The Bank of France cut its intervention rate by 25 basis points to 8.25 per cent and its 5-10 day lending rate by a similar amount to 9.25 per cent.

The size of these cuts mirrors the 25 basis point cut in the Bundesbank's discount rate last week. But French cash rates have been converging fast on German rates in the last two days.

With 3 month francs at 7.91 per cent and 3 month D-Marks at 7.73 per cent, France now only carries an 18 basis point premium over Germany.

This convergence is still not reflected in the June Pibor and Euromark contracts, where the spread is some 42 basis points, making some futures dealers think that French futures are cheap.

Conditions in the sterling cash market were very tight following difficulties removing a £1.6bn shortage forecast by the Bank of England.

The overnight lending rate was at 10 per cent at one stage. Three-month money closed unchanged at $6\frac{1}{16}$ per cent. The June short sterling future closed 6 basis points down on the day, depressed by a weak pound, to close at 93.84.

FT LONDON INTERBANK FIXING

(11.00 a.m. Apr.29)	3 months US dollars		6 months US Dollars
bid $3\frac{1}{16}$	offer $3\frac{3}{16}$	bid $3\frac{3}{16}$	offer $3\frac{5}{16}$

The fixing rates are the arithmetic means rounded to the nearest one-sixteenth, of the bid and offered rates for $10m quoted to the market by five reference banks at 11.00 a.m. each working day. The banks are National Westminster Bank, Bank of Tokyo, Deutsche Bank, Banque National de Paris and Morgan Guaranty Trust.

MONEY RATES

NEW YORK — Treasury Bills and Bonds

Lunchtime

Prime rate	6	*One month*	2.99	*Three year*	4.19
Broker loan rate	5	Two month	2.93	Five year	5.12
Fed.funds	$2\frac{15}{16}$	Three month	2.98	Seven year	5.59
Fed.funds at intervention	-	Six month	3.06	10-year	6.00
		One year	3.22	30-year	6.90
		Two year	3.81		

Apr.29	Overnight	One Month	Two Months	Three Months	Six Months	Lombard Intervention
Frankfurt	7.70-7.90	7.75-7.85	7.70-7.80	7.65-7.75	7.30-7.45	8.50
Paris	$8\frac{7}{8}$-$8\frac{13}{16}$	$7\frac{13}{16}$-$8\frac{3}{16}$	-	$7\frac{3}{4}$-8	-	8.25
Zurich	$5\frac{3}{8}$-$5\frac{5}{8}$	$5\frac{1}{16}$-$5\frac{3}{16}$	-	$4\frac{15}{16}$-$5\frac{1}{16}$	-	-
Amsterdam	7.87-7.90	7.85-7.90	-	7.52-7.57	-	-
Tokyo	$3\frac{3}{32}$-$3\frac{7}{32}$	$3\frac{3}{8}$-$3\frac{11}{32}$	-	$3\frac{3}{16}$-$3\frac{11}{32}$	-	-
Milan	$11\frac{1}{8}$-$11\frac{1}{2}$	$10\frac{15}{16}$-$11\frac{1}{16}$	-	$10\frac{13}{16}$-11	-	-
Brussels	$7\frac{3}{8}$-$7\frac{13}{16}$	$7\frac{5}{8}$-$7\frac{13}{16}$	-	$7\frac{1}{2}$-$7\frac{5}{8}$	-	-
Dublin	$8\frac{1}{4}$-$8\frac{3}{8}$	$8\frac{3}{8}$-$8\frac{1}{2}$	$8\frac{1}{4}$-$8\frac{3}{8}$	$8\frac{3}{16}$-$8\frac{5}{16}$	8-$8\frac{1}{8}$	-

LONDON MONEY RATES

Apr 29	Overnight	7 days notice	One Month	Three Months	Six Months	One Year
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

[illegible]

MONEY MARKET FUNDS

Money Market Trust Funds

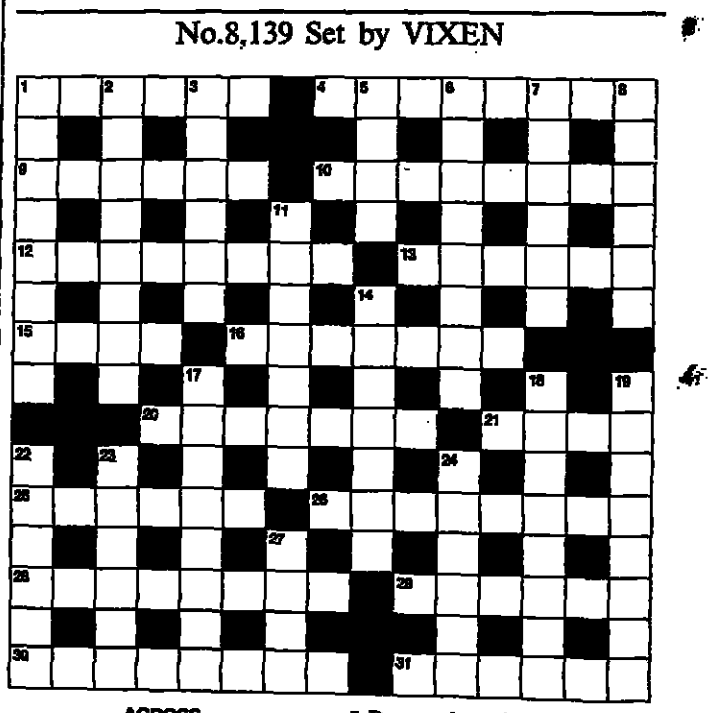
[illegible]	[illegible]	[illegible]	[illegible]

Money Market Bank Accounts

[illegible]	[illegible]	[illegible]	[illegible]

CROSSWORD

No.8,139 Set by VIXEN



ACROSS

1 Where a nurse is about to tie the knot (6)
4 Settles and forms (8)
9 Mean MP – or it might appear so (6)
10 Thinking about one's squandering (8)
12 The director's dogs (8)
13 It's hard to endure some New Year's Eve revellers (6)
15 Sound rule made to exercise control (4)
16 Increase the term of imprisonment (7)
20 After a row guys BR employees (7)
21 Shown over the church in days gone by (4)
25 Free to turn an article in, but seem indecisive (6)
26 Having some principle about people's housing (8)
28 Setting the little devil on edge is first (8)
29 Within this a man keeps 15 (6)
30 Presented with more ties to be exchanged – so irritating! (8)
31 The struggle of the non-drinker in the pack (6)

DOWN

1 Jumpers for top people (8)
2 No longer allowed to include parking, that's plain (8)
3 In time a little beast will make mistakes (6)
5 Do up about half-a-dozen for an old writer (4)
6 Caution a woman (8)
7 Set forth new ideals (6)
8 Mounted soldiers clear the ring (6)
11 Waste food (7)
14 Youngster constantly seen in bar (7)
17 The latter years of Einstein? (8)
18 Concern for profit (8)
19 A few words could result in 16 (8)
22 These days the opening is loose (6)
23 Among the last up ordinarily – such inertia! (6)
24 A green alternative of sorts (6)
27 If turned fifty and married, produce photographs (4)

Solution to Puzzle No.8,138

N	A	V	I	G	A	T	E		P	U	T	O	F	F
E		O		R		A		U		N		R		I
G	I	L	D	A		L	E	N	D	A	H	A	N	D
A		U		S		E		D		N		T		D
T	E	N	A	P	E	N	N	Y		I	D	E	A	L
E		T		S		T		E		M				I
	B	E	R	T	H	S		D	R	O	P	S	I	N
A		E		N						U		P		G
B	U	R	N	E	R	S		R	E	S	O	R	T	
R				N		P		E		C		I		S
I	R	A	T	E		O	F	F	C	H	A	N	C	E
D		G		T		O		U		O		G		N
G	R	E	E	T	I	N	G	S		I	N	E	P	T
E		N		L		S		A		C		R		O
S	I	T	T	E	R		S	L	E	E	P	S	I	N

هكذا من الأصل

WORLD STOCK MARKETS

AUSTRIA — BELGIUM/LUXEMBOURG — DENMARK — FINLAND — FRANCE — GERMANY — NETHERLANDS — SWEDEN — SWITZERLAND — NORWAY — SPAIN — ITALY — SOUTH AFRICA — JAPAN — AUSTRALIA — HONG KONG — MALAYSIA — SINGAPORE

[illegible]

CANADA

TORONTO — 4 pm close April 29 — MONTREAL — 4 pm close April 29

[illegible]

INDICES

NEW YORK DOW JONES — STANDARD AND POOR'S — NEW YORK ACTIVE STOCKS — TRADING ACTIVITY — CANADA TORONTO

[illegible]

WORLD						
M.S. Capital Intl.(1/1/70) $	555.1*	555.6	558.0	552.1	560.80 (13/4)	488.60 (13/1)
Euro Top-100 (26/6/90)	948.10	956.32	957.18	958.49	968.47 (22/4)	862.73 (13/1)

**Saturday April 24: Taiwan Weighted Price 4,583.21, Korea Comp Ex. 734.18. ♥ Subject to official recalculation. *Calculated at 15.00 GMT

Base values of all indices are 100 except NYSE All Common - 50; Standard and Poor's - 10; and Toronto Composite and Metals - 1000. Toronto indices based 1975 and Montreal Portfolio 4/1/83. † Excluding bonds.‡ Industrial, plus Utilities, Financial and Transportation. (c) Closed. (u) Unavailable. ♠ The DJ Indl. index theoretical day's highs and lows are the averages of the highest and lowest prices reached during the day by each stock; whereas the actual day's highs and lows (supplied by Telekurs) represent the highest and lowest values that the index has reached during the day. (The figures in brackets are previous day's). ♥ Subject to official recalculation.

Base values of all indices are 100 except Austria Traded, BEL20, HEX Gen., MIB Gen., CAC40, Euro Top-100, ISEQ Overall and DAX - 1,000, JSE Gold - 255.7, JSE 25 Industrials - 264.3 and Australia All Ordinary and Mining - 500. (c) Closed. (u) Unavailable

TOKYO - Most Active Stocks
Wednesday April 28 1993

	Stocks Traded	Closing Prices	Change on day		Stocks Traded	Closing Prices	Change on day
NEC Corp	40.0m	1,030	+50	Mitsubishi Hvy	13.8m	688	+12
Sumitomo Mt Mn	36.9m	1,070	+80	Toshiba Corp	12.9m	749	+30
Mitsui Mn & Sm	17.7m	544	+26	Itochu Corp	12.2m	593	+13
Nippon Steel	17.3m	397	-7	Hitachi	11.4m	895	+37
Fujitsu	15.9m	761	+24	Teikoku Oil	10.4m	908	+75

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

4 pm close April 29

1993 High	Low	Stock	Div	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Chng Prev. Close
13¼	11½	AAR Corp x	0.48	3.7	23	441	12⅞	12½	12⅞	+⅛
27¼	20	A L Labs A	0.18	0.9	33	1270	20⅞	20½	20⅝	-⅛
61⅜	54⅝	AMP Inc	1.60	2.7	21	1620	60¾	59⅞	60⅜	-½
71⅝	55½	AMR			10	9247	68¾	66⅝	67⅝	-⅝
2	1⅜	ARX			14	288	u2¼	2	2¼	+¼
45⅝	29⅞	ASA	2.00	4.3	30	1958	u46⅛	45½	46	+⅜
30¾	22⅝	Abbott Lab	0.68	2.5	17	6865	27½	26¾	27¼	-⅜
12⅝	10¼	AbitIbi Pr	0.50	4.1	4	28	12	12	12⅛	
11¾	10¾	ACM Gvt In	0.96	8.3		130	u11¾	11⅝	11⅝	-⅛
9¾	9⅛	ACM GvOpp	0.79	8.3		119	9⅝	9½	9½	
9⅝	8¾	ACM Gvt Sp x	0.79	8.4		35	9½	9⅜	9⅜	-⅛
11⅜	10½	ACM Gvt Se x	0.96	8.5		378	u11⅜	11¼	11¼	-⅛
10⅞	9⅝	ACM Man	1.08	10.0		112	u10⅞	10¾	10¾	
9⅜	8⅝	ACM Managd	0.72	8.0		412	9⅛	9	9	
9¼	7¾	Acme Cleve	0.40	4.5	11	151	9	8¾	8⅞	-⅛
9¼	6½	Acme Elect			775	22	8	7¾	7¾	-¼
16	12⅛	Acuson			11	1615	12⅞	d12⅛	12⅜	-1
22¼	19⅝	Adams Expr	0.48	2.3	1	131	21⅛	20⅞	20⅞	
89	45½	Ad Micro	3.00	5.1		222	60¼	59¼	59¼	-1½
32¾	17⅝	Ad Micro P	3.00	10.3	12	6968	29¾	29⅛	29¼	-¾
7¾	5½	Advest Grp	0.16	2.5	11	23	6½	6½	6½	-⅛
49⅜	41⅛	Aegon ADR	1.35	3.0	8	96	45⅛	44¾	45	-⅛
53¾	43⅜	Aetna Ll x	2.76	5.5	985	1194	49¾	49	49¾	+¼
14½	11½	Ahl B A	0.26	2.1	28	1108	12⅛	12	12⅛	
39¾	33	Aflac	0.50	1.3	18	447	38¼	37¾	37⅞	-⅜
22⅛	17⅛	Ahmanson	0.88	4.9	15	1306	18⅛	17⅞	18	
7¾	4⅝	Aileen Inc			19	4	5½	5⅜	5⅜	
48½	40⅜	Air Pr Chm	0.86	2.0	17	636	44⅛	43⅛	43⅝	-⅛
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

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Ferranti's US ... for sale

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4 pm close April 29

NYSE COMPOSITE PRICES

Continued from previous page

- S -

- T -

- U -

- V -

- W -

- X - Y - Z -

NASDAQ NATIONAL MARKET

4 pm close April 29

- A - - B - - C - - D - - E - - F - - G - - H - - I - - J - - K - - L - - M - - N - - O - - P - Q - - R - - S - - T - - U - - V - - W - - X - Y - Z -

AMEX COMPOSITE PRICES

4 pm close April 29

AMERICA

Economic data leave Dow lower at midday

Wall Street

A SERIES of conflicting economic data left US share prices flat-to-lower in light trading yesterday, *writes Patrick Harverson in New York.*

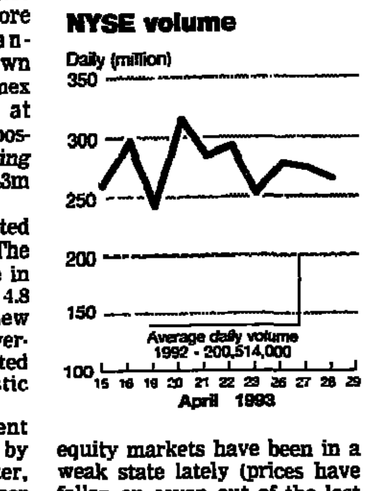
At 1 pm, the Dow Jones Industrial Average was 5.67 lower at 3,407.56. The more broadly-based Standard & Poor's 500 was down 0.94 at 437.08, while the Amex composite was up 0.54 at 417.30, and the Nasdaq composite down 2.30 at 655.86. Trading volume on the NYSE was 143m shares by 1 pm.

The morning was dominated by a raft of economic data. The good news – a 7,000 decline in weekly jobless claims and a 4.8 per cent rise in March new house sales – was mostly overshadowed by the long awaited first quarter gross domestic product report.

The commerce department announced that GDP grew by 1.8 per cent in the quarter, which compared with 4.7 per cent growth in the previous three months. Although the markets had been bracing themselves for a slowdown in economic growth, the figure was still disappointing, coming in below forecasts which had predicted GDP growth of 2.3 per cent.

The markets were also unnerved by news of a 3.3 per cent increase in the implicit price deflator – the measure of inflation published along with the GDP numbers. The fact that first quarter economic growth was slower than expected, that inflation measures were stronger, and that the equity markets have been in a weak state lately (prices have fallen on seven out of the last eight days), all contributed to yesterday's declines.

NYSE volume



Even news of improved earnings at General Motors failed to lift sentiment. GM announced first quarter net income of 42 cents a share, a turnaround from the big loss a year earlier. Although the figures were ahead of analysts' expectations, investors took the opportunity to book some profits earned in the stock's recent climb (it started yesterday within $2 of its 52-week high), and GM fell $1 to $41⅝ in volume of 2.5m shares.

UAL fell $6 to $139⅛ after the airline group reported a larger-than-expected quarterly loss of $5.92 a share, which was before an extraordinary charge. The rest of the sector fell in sympathy. AMR, parent of American Airlines, slipped $1⅛ to $66⅞, Delta gave up $⅝ at $56⅝ and USAir eased $⅝ to $20⅞.

American International Group jumped $6¼ to $126⅛ after the insurer unveiled operating income of $2.24 a share, up from $1.91 a year earlier.

On the Nasdaq market, President Riverboat rose $1⅞ to $32¼ after Missouri legislators passed a bill that will pave the way for riverboat gambling to begin in the state.

Canada

TORONTO moved higher in active trading helped by further strength in the gold market. The TSE-300 index was up 16.56 to 3,726.78 at midday in volume of 42.5m shares. Gainers led losers by 354 to 245, with 347 unchanged. The precious metals index advanced 126.4, or 1.7 per cent, to 7,534.83.

ASIA PACIFIC

Kuala Lumpur rallies in the absence of Tokyo

THE Tokyo market was closed for the start of the Golden Week holiday.

KUALA LUMPUR continued its rally, rewriting its record high on a strong rise in blue chip issues. The composite index climbed 9.57, or 1.4 per cent, to 705.00.

Traders noted US institutional funds supporting leading stocks. Fund managers adjusted their portfolios to the composition of the Morgan Stanley Capital International index, which will split its Malaysian and Singapore stock grouping on May 1, giving a larger weighting in Malaysia.

HONG KONG ended a volatile day slightly lower as investors were cautious over the third round of the Sino-British talks, which have been set for May 21 to 23. The Hang Seng index eased 10.85 to 6,884.05 in turnover of HK$4.73bn, against HK$4.88bn.

Britain and China finished the second round of talks yesterday, but major progress over the negotiations has not been announced. Traders said the underlying tone remained firm, but a sharp rise was unlikely.

Interest focused on speculative issues moving on rumours. Hutchison Whampoa advanced 80 cents to HK$19.80. Banks were weak, HSBC losing HK$1 to HK$72.

AUSTRALIA fell on arbitrage selling prompted by heavy sales of index futures. The All Ordinaries index lost 23.2, or 1.4 per cent, to 1,680.3, the lowest level since April 8. Turnover rose to A$534m from A$308m as Newmont Mining, of the US, sold its stake in gold producer Newcrest Mining.

Newcrest shed 13 cents to A$3.09, depressing the gold sector in spite of a rise in gold prices. Plutonic Resources jumped 38 cents to A$3.72 on reports of a gold discovery in western Australia.

MANILA saw its index break a record high as optimism was fuelled by a rise in blue chips. The composite index rose 29.2, or 1.9 per cent, to 1,594.59, breaching the previous high set on April 15.

Philippine Long Distance Telephone added 15 pesos at 970 pesos in volume of 26.2m pesos.

SINGAPORE edged lower as investors remained sidelined due to the lack of fresh news. The Straits Times Industrial index closed 0.70 off at 1,779.22 in volume of 207.3m shares, after 232.4m previously.

Singapore Airlines Foreign rose 40 cents to S$9.20 with some 4.1m shares traded.

SEOUL was mixed as profit-taking in blue chip shares offset selective buying centred on small and medium-sized companies. The market index eased 3.65 to 724.76.

Some analysts believe that the time will soon be right for a mild rebound in large-capitalisation shares.

In the meantime, active buying interest is being seen in small electrical and electronics companies and textiles and chemical engineering groups which missed out in the recent bull run.

Among the losers, Samsung Electronics shed Won400 to Won39,600 and Hyundai Motor declined Won100 to Won28,300.

TAIWAN saw a similar trading pattern, with early gains largely erased by profit-taking. The weighted index ended just 0.4 up at 4,527.47 in further thin turnover of T$28.9bn.

Concern over threatened US trade sanctions and talks between Taiwan and China in Singapore left investors reluctant to take new positions during the session.

JAKARTA was firmer in moderate trading, in late reaction to corporate results. The official index moved up 1.03 to 313.22.

Against the trend, Modern Photo retreated a further Rp200 to Rp14,000 amid unconfirmed rumours of resignations by some expatriate managers. Argo Pantes closed Rp100 down at Rp2,600 following reports of a 71 per cent plunge in net profits.

BANGKOK was lower for the fourth consecutive day on worries about the political implications of an investigation into alleged share price manipulation. The SET index weakened 7.28 to 849.57 in light turnover of Bt2.47bn.

The index has fallen 51.69, or 5.74 per cent, since Monday following news that 153 individuals and companies are under investigation for price manipulation.

There is the added worry that some of the individuals or companies involved could be linked to ministers in the coalition government.

NEW ZEALAND was the focus of strong foreign demand which drove the NZSE-40 index up 5.29 to 1,627.87, the highest close since the index began in mid-1991. The previous record finish of 1,627.31 was set on February 16. Turnover was a substantial NZ$40m.

Forestry groups remained the centre of attention. Fletcher Challenge appreciated a further 4 cents to NZ$2.89, while Brierley Investments firmed 2 cents to NZ$1.02 in volume of almost 6m shares.

EUROPE

Paris edges down after interest rate cut

SENIOR bourses were weaker yesterday, *writes Our Markets Staff.*

PARIS gave only a second glance to the cut in interest rates by the Bank of France, which had been anticipated. The CAC-40 index closed down 21.96 or 1.1 per cent at 1,920.55.

Mr Ian Furnivall, Paris-based analyst at Hoare Govett, commented that real interest rates still remained very high in France, and the rate cuts were happening at a more leisurely pace than the market desired. The real worry, he said was that the government's privatisation plans, while on the one hand an attempt to reduce the budget deficit, were coming about at a time when institutions were overweight in France and the market was overbought. "There is a risk of the market being swamped in new paper," he said. "An imbalance in supply and demand is an issue that will loom large in people's minds over the next few months".

Total eased further following Wednesday's capital increase announcement, the shares ending down FFr5.20 at FFr259.90, but off the day's low of FFr255.20. Accor, which has had to cut prices in some of its hotels in Europe for the first time, also added to its fall of the previous day, slipping FFr21 to FFr625.

MILAN eased as it digested the composition of the new cabinet and awaited indications of the new legislative programme. The Comit index fell 4.80 to 539.13.

Mr Carlo Azeglio Ciampi's broadly-based government and strong economics team have won the broad approval of analysts. However, Mr Michele Pacitti of NatWest Securities in London expected prices to mark time until there was tangible evidence that the new government was ready to tackle the country's economic ills.

He thought it encouraging for the privatisation programme that Mr Piero Barucci was remaining as treasury minister. "The economic reality is that there is no alternative to the privatisations," he said.

Benetton fell L599 or 3.3 per cent to L17,810 as it forecast growth this year in line with 1992 performance.

FRANKFURT recouped some early losses on short covering with the DAX index slipping 4.93 to 1,623. Many investors remained on the sidelines after a fall in the domestic bond market and ahead of the strikes in east Germany which may begin next week.

Some analysts commented that traders were active in chemical issues which have made dividend payments. Mr Glen Liddy at Kleinwort Benson said that trading in the sector had inflated volumes this week, and the market could slip in lower turnover in the near term. BASF, which announced first quarter earnings yesterday, closed up DM4.1 to DM235.3, but fell in post bourse trading as the stock went ex-dividend.

AMSTERDAM featured DSM which closed off Fl 1.00 at Fl 84.30 after a sharp decline in first quarter profits over the same 1992 period. Akzo slipped Fl 1.70 to Fl 150.20.

James Capel rates the latter a buy, noting efforts to control costs and improve efficiency, gearing to recovery in the US and its "lower cyclicality compared to some if its European counterparts".

The CBS Tendency index lost 1.3 to 107.6.

BRUSSELS extended its losses for the 10th consecutive session and the Bel-20 index lost 11.72, or 1 per cent, to 1,193.96.

Some analysts suggested that institutional investors who had purchased Générale de Banque from a leading shareholder which released its stake earlier this week, had sold off other shares to maintain exposure to the Belgian market. Petrofina plunged BFr280 or 3.2 per cent to BFr 8,540. Speculation of a takeover bid subsided after denials from its leading shareholder that it would not sell its stake.

ISTANBUL was again unstoppable, surging 4.3 per cent to this month's 10th all-time high close. The market index rose 325.95 to 7,896.92 on strong demand. Gains over the last four days total 14.2 per cent, in spite of continuing political uncertainty over forthcoming elections.

Mr Stuart Harley of Schroders in London noted that many investors appeared to be targeting the 8,000 level. He added that local press reports of bullish comments by the stock exchange chairman and a continuing strong inflow of funds by new, equity based mutual funds continued to fuel the rally.

HELSINKI firmed on lower money market rates. The HEX index advanced 21.5, or 1.9 per cent to 1,173.1. OSLO also gained ground as the central bank cut the overnight lending rate to 7.75 per cent. The All-share index rose 1.68 to 471.84.

FT-SE Actuaries Share Indices

THE EUROPEAN SERIES

April 29 Hourly changes	Open	10.30	11.00	12.00	13.00	14.00	15.00	Close
FT-SE Eurotrack 100	1146.11	1146.37	1146.79	1145.26	1145.17	1145.39	1144.37	1143.23
FT-SE Eurotrack 200	1201.33	1203.51	1203.60	1201.76	1202.49	1200.24	1200.84	1199.62

	Apr 28	Apr 27	Apr 26	Apr 23	Apr 22
FT-SE Eurotrack 100	1154.98	1149.08	1152.81	1156.50	1164.35
FT-SE Eurotrack 200	1212.69	1213.85	1218.66	1223.66	1234.50

Base value 1000 (26/10/90) High/day: 100 - 1147.60; 200 - 1205.14 Low/day: 100 - 1143.23 200 - 1199.01.

Pakistan enters uncertain period

Farhan Bokhari on equities following the government's dismissal

Pakistani stocks have entered one of their most uncertain periods due to concern over the country's political and economic future after last week's fall of Mr Nawaz Sharif's 29-month long government.

Although the Karachi stock exchange yesterday inched ahead, reversing earlier expectations of a steep fall, that in itself has not ended speculation that the market will become increasingly bearish during the next three to five months.

The KSE-100 index closed yesterday at 1,098, but still remains some 147 points below the start of the year.

That fall reflects both the newly emerging pressures on the market and a downward trend which has continued for more than a year.

The market took its biggest drop in a single day this year on April 19, when the KSE index lost some 3 per cent, after President Ghulam Ishaq Khan dismissed the government of Prime Minister Nawaz Sharif.

Under his administration economic reforms and fiscal incentives for businesses were initiated. The reforms in turn were widely believed to hold the key to greater confidence in the market which, for the first time, saw the entry of an increasing number of local and foreign investors.

Mr Farooq Leghari, the new finance minister, assured business leaders in Karachi this week that the reforms would not be reversed and that there would be further economic liberalisation. However, many observers say they will only accept such assurances from the new government that will be appointed after elections scheduled for July 14, rather than the present interim administration.

The present government's efforts to restore political stability have suffered a setback, due to signs of an internal split. Ms Benazir Bhutto, the opposition leader, is at odds with President Khan and Mr Balakh Sher Mazari, the prime minister, over the future of Pakistan's four provincial assemblies.

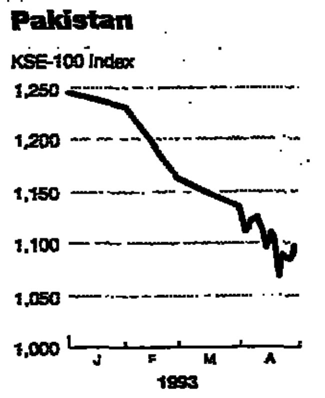
Ms Bhutto is demanding the dissolution of the provincial legislatures after last week's dissolution of the national assembly.

But both Mr Khan and Mr Mazari are opposing her. Some observers fear that the split could lead to Ms Bhutto's colleagues withdrawing from the interim government.

Among those to leave could be Mr Leghari, the finance minister, who is among her closest supporters.

Regarding the economy the most pressing concern is that of a worsening budgetary deficit this year which is expected to be in excess of Rs100bn ($3.8bn), compared with an earlier target of Rs65bn ($2.5bn).

Pakistan



In addition, a recession in the textile sector, especially in spinning, has caused additional uncertainty over textile shares, which make up almost one-third of the 643 companies registered on the stock exchange.

Mr Arif Habib, president of the KSE, agrees that there is an uncertain climate, which would only go away once a new government was elected.

"When a government changes, investors have apprehensions about its future policies," he comments.

But Mr Nasir Ali Shah Bukhari, a leading broker, while accepting the bearish trends, expects some selected companies to remain good buys.

He recommends companies which present good opportunities for medium to long-term growth, where new investments at present are expected to yield good profits when the market recovers.

Johannesburg golds up 7.5%

GOLD shares continued to be driven by a higher bullion price, leaving a rise in the share index of 104, or 7.5 per cent, at 1,497, *write Philip Gawith in Johannesburg and John Pitt in London.*

Demand has been coming from overseas, particularly the US and Europe, with investors attracted by high dividend yields. Since the beginning of the year the index has gained 47 per cent.

Mr Dave Giese, gold analyst at Davis Borkum Hare, noted that in rand terms the price has gone to levels it has never reached before.

Following severe cost-cutting programmes over the last three years, most South African mines were "lean and mean". Another analyst cautioned that buying was speculative, with highly geared marginal mines doing better than heavyweights.

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co. and NatWest Securities Limited in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS — Figures in parentheses show number of lines of stock	WEDNESDAY APRIL 28 1993: US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	TUESDAY APRIL 27 1993: US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX: 1993 High	1993 Low	Year ago (approx)
Australia (68)	140.93	-1.6	132.96	100.13	116.21	131.51	+0.0	3.76	143.29	134.82	100.72	117.70	131.52	144.19	117.39	148.38
Austria (18)	142.02	-1.0	133.98	100.91	117.10	117.11	-0.5	1.77	143.41	134.74	100.80	117.80	117.70	150.96	131.16	164.42
Belgium (42)	150.21	-0.3	141.71	106.72	123.86	120.76	+0.1	4.69	150.59	141.49	105.84	123.70	120.70	156.76	131.19	138.18
Canada (110)	125.15	+0.4	118.07	88.91	103.19	115.41	+0.7	2.88	124.61	117.07	87.58	102.35	114.64	125.97	111.41	126.71
Denmark (33)	214.10	-0.4	201.98	152.12	176.53	177.77	-0.1	1.28	214.97	201.97	151.11	176.58	177.91	217.26	185.11	229.75
Finland (23)	93.55	-2.5	88.26	66.47	77.14	106.42	-1.4	1.17	95.93	90.13	67.44	78.80	107.93	95.93	65.50	77.40
France (98)	162.19	+0.3	153.01	115.23	133.72	136.11	+0.6	3.30	161.71	151.93	113.66	132.82	135.27	167.36	142.72	160.69
Germany (62)	113.87	-1.1	107.43	80.92	93.89	93.89	-0.7	2.27	115.14	108.18	80.95	94.58	94.58	117.10	101.59	117.56
Hong Kong (55)	277.23	+0.9	261.55	196.97	228.60	275.03	+0.9	3.37	274.79	258.18	193.15	225.74	272.61	277.23	218.82	222.04
Ireland (15)	164.68	+0.2	155.36	117.01	135.79	150.76	+0.5	3.51	164.38	154.44	115.55	135.03	150.06	170.40	129.28	162.69
Italy (73)	70.31	-0.2	66.33	49.95	57.97	77.17	-0.6	2.55	70.44	66.18	49.51	57.86	77.62	70.44	53.78	70.85
Japan (470)	141.57	+0.2	133.56	100.58	116.75	100.58	+1.3	0.83	141.28	132.73	99.30	116.06	99.30	141.84	100.75	97.61
Malaysia (69)	312.05	-0.2	294.40	221.70	257.30	308.93	-0.2	2.18	312.62	293.71	219.73	256.79	309.48	312.62	251.66	237.42
Mexico (18)	1569.57	+0.1	1480.77	1115.18	1294.20	5313.85	+0.2	1.27	1567.31	1472.54	1101.68	1287.45	5301.91	1725.81	1410.30	1654.78
Netherland (24)	169.38	-0.2	159.79	120.34	139.66	137.76	+0.2	4.02	169.78	159.51	119.34	139.47	137.54	172.75	150.39	155.21
New Zealand (13)	49.03	+1.1	46.26	34.84	40.43	47.84	+1.6	4.57	48.52	45.59	34.11	39.86	47.09	49.03	40.56	43.62
Norway (22)	163.38	+1.4	154.14	116.08	134.72	148.47	+1.6	1.78	161.09	151.35	113.23	132.33	146.06	163.38	137.71	174.83
Singapore (38)	242.48	+0.5	228.76	172.28	199.94	180.52	+0.6	1.86	241.26	226.67	169.59	198.18	179.50	242.48	207.04	209.49
South Africa (60)	181.45	-0.6	171.18	128.92	149.61	184.02	+0.2	2.72	182.53	171.49	128.30	149.93	183.72	182.65	144.72	226.11
Spain (45)	132.19	+0.7	124.71	93.92	108.99	116.16	+0.4	5.20	131.33	123.39	92.31	107.88	115.71	132.82	115.23	148.26
Sweden (36)	172.15	+0.8	162.41	122.32	141.95	184.96	+0.8	1.82	170.83	160.50	120.08	140.33	183.53	174.66	149.70	183.19
Switzerland (55)	120.18	+0.1	113.38	85.39	99.11	106.81	+0.7	2.04	120.00	112.74	84.36	98.59	106.09	121.72	108.91	99.97
United Kingdom (218)	178.42	-1.6	168.32	126.75	147.10	168.32	-1.1	4.09	181.24	170.28	127.38	148.86	170.28	181.99	162.00	189.45
USA (519)	178.75	+0.0	168.63	127.00	147.39	178.75	+0.0	2.85	178.73	167.92	125.63	146.82	178.73	186.27	175.38	167.89
Europe (764)	146.89	-0.7	138.58	104.37	121.13	131.49	-0.4	3.40	147.98	139.03	104.02	121.56	132.03	149.02	133.92	149.15
Nordic (114)	163.19	+0.2	153.96	115.95	134.56	154.17	+0.4	1.62	162.90	153.05	114.50	133.81	153.57	165.12	142.13	171.91
Pacific Basin (713)	145.51	+0.2	137.28	103.39	119.98	106.73	+1.2	1.12	145.27	136.49	102.11	119.33	105.48	145.51	105.89	103.62
Euro-Pacific (1477)	145.96	-0.2	137.70	103.69	120.34	117.43	+0.5	2.06	146.26	137.41	102.80	120.13	116.81	148.26	117.26	122.03
North America (629)	175.40	+0.0	165.48	124.64	144.66	174.43	+0.0	2.85	175.35	164.75	123.27	144.07	174.36	182.38	171.51	165.30
Europe Ex. UK (546)	127.28	-0.2	120.08	90.45	104.97	110.59	+0.1	2.93	127.50	119.79	89.64	104.75	110.49	128.65	112.51	125.20
Pacific Ex. Japan (243)	184.57	-0.1	174.13	131.16	152.21	167.80	+0.4	3.24	184.84	173.66	129.94	151.85	167.08	184.84	152.70	162.88
World Ex. US (1665)	146.47	-0.2	138.19	104.08	120.78	119.40	+0.5	2.08	146.75	137.88	103.16	120.55	118.78	146.75	118.51	124.34
World Ex. UK (1966)	154.18	+0.0	145.46	109.55	127.15	134.65	+0.5	2.19	154.11	144.80	108.34	126.61	133.99	155.77	134.22	133.25
World Ex. So. Af. (2124)	156.25	-0.1	147.41	111.03	128.85	137.34	+0.3	2.37	156.42	146.96	109.96	128.50	136.89	157.88	137.29	137.53
World Ex. Japan (1714)	165.92	-0.3	156.53	117.90	136.83	158.20	-0.1	3.05	166.34	156.28	116.93	136.66	158.35	168.09	157.47	160.71
The World Index (2184)	156.31	-0.1	147.47	111.06	128.90	137.76	+0.3	2.37	156.49	147.03	110.00	128.55	137.31	157.83	137.32	138.09

Latest prices were unavailable for this edition.

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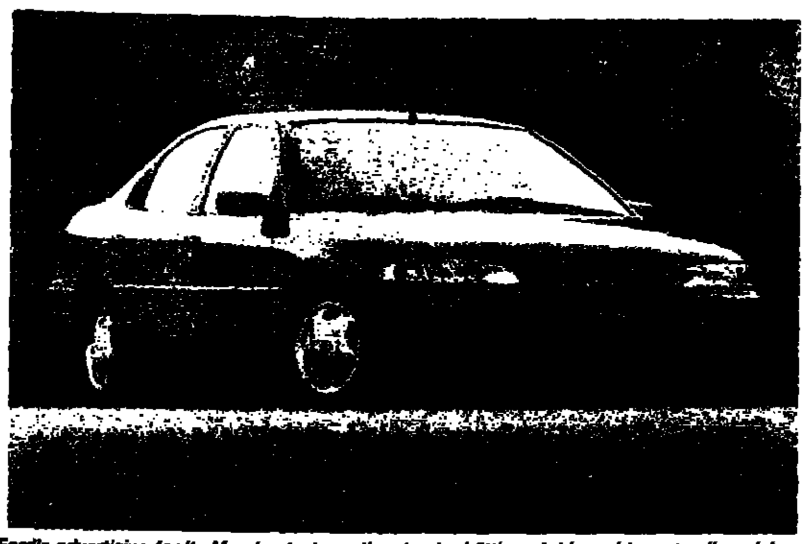
SECTION III

Friday April 30 1993

Upheavals in the industry come at a time when, as recession grips much of continental Europe, the flamboyance of the 1980s is being replaced by a more low-key, sober approach to motoring. This is affecting both design and engineering, **John Griffiths** reports

Thinking the unthinkable



Ford's advertising for its Mondeo features the standard fitting of driver airbags to all models

The Rover 600 range is making a significant assault on the middle-range executive car market

THE map of the world's executive and luxury car industry is being re-drawn.

In the process, and sometimes to the dismay of die-hard traditionalist customers, some of the taboos which have determined parts of the industry's structure for many years are being dismantled.

The re-drawing is most apparent in North America, the world's biggest single executive and luxury car market, where Japanese manufacturers have captured nearly one third of the sector in less than six years with marques such as Toyota's Lexus, Nissan's Infiniti and Honda's Acura.

The European executive specialist manufacturers such as Mercedes, BMW and Jaguar, who once dominated this part of the market, now control only one fifth.

The competitiveness of the German manufacturers, in particular, has been hit hard by the strength of the D-Mark and spiralling wage and social costs which have left Germany by far the most expensive country in which to produce cars in Europe.

So, in moves which might have been unthinkable to many industry observers in the car industry boom years of the late 1980s, German manufacturers are moving out of Germany. Last year, BMW announced that its next new production facility would be in South Carolina, to build a new sporty car at a volume of up to 90,000 a year.

At the beginning of April, Mercedes-Benz announced that it intended to build a $300m plant, also in the US, to produce a four-wheel-drive sports utility vehicle at a rate of up to 60,000 vehicles a year, beginning in 1997.

Such moves are the German makers' main hope of narrowing what they acknowledge to be the big production costs gap between them and Japanese rivals, even allowing for the occasional accusation against the Japanese of dumping.

According to Mr Helmut Werner, Mercedes' vice-chairman, the US plant's production costs should be 30 per cent lower than those of its European facilities – and will also reduce the impact of currency fluctuations. Not least, the learning experience should help prepare it for the time when – as is regarded as inevitable – the Japanese manufacturers move into the European luxury car market in earnest.

However, in Mercedes' case the re-drawn map includes much more than plant locations. The company, says Mr Werner, is to transform itself from luxury carmaker into "an exclusive full-line manufacturer offering high-quality vehicles in all segments of the market". Thus, before this decade is out, there is to be a "people carrier" or multi-purpose vehicle, the US four-wheel-drive machine and even a small "city" car as well as its current three-model conventional car line-up.

In an astonishing admission, he asserts that the current cars are "over-engineered" – a practice which, if continued, would price Mercedes out of its markets.

The breaking of old taboos is not confined to the German industry: Jaguar, the loss-making luxury car subsidiary of Ford, has been helped by sterling devaluation since Britain's ERM withdrawal. But Jaguar, too, faces possibly substantial change which is fundamentally cost-driven.

The old idea that a "proper" Jaguar could never be built anywhere but Coventry is already being eroded by the prospect of future engines coming from Ford's Bridgend plant in Wales. Yet more trauma-inducing for the traditionalists, the smaller Jaguar planned for the late 1990s is expected to share the floor pan of Ford's "world car" replacement for the current Granada.

These upheavals come at a time when, as recession has tightened its grip on large swathes of continental Europe, the flamboyance of the 1980s is disappearing, replaced by a more low-key, sober approach to motoring which is affecting both design and engineering.

Greater concern with economy and the environment is reflected in surging sales of diesel cars. They are both "cleaner" in terms of their exhaust gases and much more economical than petrol engines of similar power. Hitherto regarded in markets such as the UK as appropriate more to high-mileage utilitarian than executive cars, the picture is about to change with the launch in the summer of BMW's first diesel cars in Britain.

The old axiom that "safety does not sell" is also under challenge as never before.

An increasing proportion of manufacturers' promotion of their products is being allocated to safety features rather than performance or styling. One of the main planks of Ford's advertising for its new Mondeo "world car" is the standard fitting of driver airbags to all models.

Mercedes and other manufacturers are now in a race to develop the first commercial airbags to protect passengers in side collisions.

German manufacturers of executive cars, in particular, believe they must broaden their market presence to survive – thus Audi is planning a new "entry level" Audi, the 50, which will be little more expensive than a well-equipped Golf. As well as the Mercedes small car, BMW has been investigating the production of a "city car", a concept for which, the Z13, was shown at the Geneva motor show.

At the other extreme, Audi will take the industry into a new era of technology from next year when it launches a new V8-engined flagship with its main body structures made from aluminium, not steel.

The car will mark the first use of aluminium body assembly systems which, in future, may lend themselves to high-volume production of lightweight, energy-efficient and easily recyclable cars.

Old customer allegiances are fading; replaced by a greater willingness to sample a variety of manufacturers' wares.

Audi is considering joining BMW and Mercedes in production on the American continent although it may opt not to set up in the US but to extend its existing assembly facilities in Mexico. Not to do so could leave Audi at a significant disadvantage vis-à-vis other manufacturers, particularly Japanese, who have already opted for sites within the North American Free Trade Area (Nafta).

"To be successful in the world a company has to be successful in the US," declared Mr Eberhard von Kuenheim, chairman of BMW, when he broke ground late last year for the company's new $400m plant in South Carolina.

Increased competition is not just coming from the Japanese, however. General Motors, Ford and Chrysler have also begun to enjoy a product revival in the executive and luxury sectors, while the UK's own competitive position is being increased through the long-standing collaboration between Honda and Rover bearing increasing fruit. This month, Rover unveiled its long-awaited Rover 600 range, the Cowley-built version of Honda's Swindon-built Accord, with which both are making a significant assault on the middle-range executive car market.

The cars look different but have the same engines and gearboxes and mostly shared components.

For Rover, they represent the biggest step yet in its drive to transform itself into a producer of premium upmarket models capable of competing with the likes of BMW and Audi and with a similar production level of about 500,000 units a year.

The benefits of the relationship with Honda go beyond technology and resources. "We have acquired an insight into Japanese best practice and processes," says Mr George Simpson, Rover's chairman, who maintains that it opens the way to significant cost reductions in every area of the business.

In continental Europe, where Rover has started a dealership expansion programme despite recession, the 600 is being promoted as a head-on rival to BMW's 3-Series and Audi's 80 and Mercedes' 190 models.

A side-effect of the cold climate for the German industry is increasing collaboration between its manufacturers.

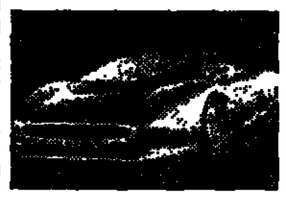
For example, towards the end of this year Audi will launch an Audi-badged sports model built in collaboration with Porsche, the deeply-troubled luxury sports car maker. The deal, inspired by Mr Ferdinand Piëch, Volkswagen group chief executive who is also a member of the family which controls Porsche, is aimed at helping underpin loss-making Porsche's finances while giving Audi an image lift.

Even Mercedes-Benz and BMW have been discussing possible collaboration on parts manufacture, according to Mr Werner. Hitherto, each has remained among the most determinedly independent and vertically integrated of all the world's car companies.

Audi exemplifies some of the

Continued on Page 10

ON OTHER PAGES



■ **Editorial production:** Phil Sanders

■ The Germans: Porsche, Audi, Volkswagen and BMW

Important strategic moves

As a marketing wheeze, the joint-venture project under which Porsche will help Audi develop a new sporty car to pad out its range has much to recommend it.

Mr Franz-Josef Kortüm, the new man in charge of Volkswagen's classiest marque, was enlisted from Mercedes-Benz last year to polish up the marketing of a technologically advanced and virtually all-new range of quality motors.

His job description, drafted by his predecessor, Mr Ferdinand Piëch, now clearing up the mess at Volkswagen group headquarters, involves him in closing the gap between Audi and BMW and Mercedes-Benz, market leaders in the German quality league.

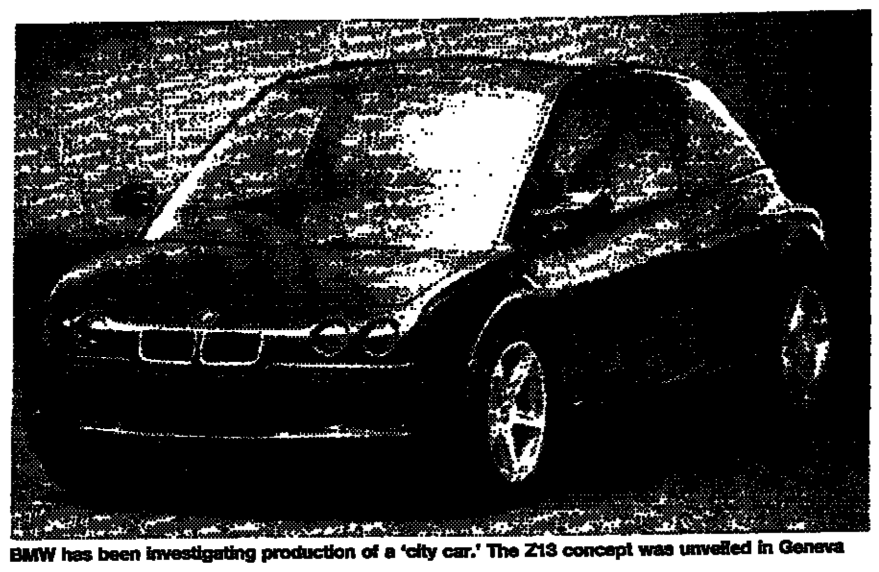
The prestige of Porsche, which will build the vehicle and help market it, can hardly fail to help. But the joint venture, which aims to unveil the new model in just six months and launch it next year, is also an important strategic move. It spells the end of an extravagant project for Audi to develop and build its own Spyder sports car.

Audi is sticking to its knitting. A recession is no time for gambling or diversions into expensive prestige projects. Accordingly, the new car, although "very sporty" according to Mr Kortüm, will be based on an existing Audi model. It will fill out rather than extend the company's range.

The project should offer some assistance to Porsche (majority owned by Mr Piëch's family) through an exceptionally lean spell. "Substantial" losses are expected this year after a DM120m deficit in the first half. But the deal will also help Audi contain development costs and forge a relationship which could conceivably lead to even closer links in the future.

Porsche insists that it will remain independent, but with losses running at the current rate and the motor industry downturn expected to continue into next year and beyond, its renowned cash reserves of DM600m are not going to last long. Recent renewed speculation suggests that once Audi is fully established as an able competitor in the big league, it may be floated off from the VW group as a potential future parent for the fragile Porsche.

The venture also highlights an emerging trend, especially noticeable among Germany's top-quality carmakers, towards greater co-operation. BMW and Mercedes, for example, are planning their first collaboration in components. The big three manufacturers – and classy little Porsche – have clearly accepted that the job of speedily reducing their cost disadvantages



BMW has been investigating production of a 'city car.' The Z13 concept was unveiled in Geneva

vis-à-vis the Japanese competition (estimated at 30 per cent upwards) will be made all the harder if they try to do all the work alone. Although BMW has so far had a less-than-catastrophic ride through recession, Mercedes and Audi are both running losses. Audi's deliveries to customers were more than 30 per cent down at the three-month mark. BMW, meanwhile, is still enjoying some of the benefits of the launch last year of its new 3-Series which helped it for the first time in its history to overhaul Mercedes in terms of unit sales, and to deliver a total 595,000 cars.

It did especially well in the US, raising deliveries last year by 20 per cent. But it could not escape the effects of currency turbulence which cut net profits to DM726m from DM783m. And now it is feeling some of the pressures which have driven its competitors into the red.

First-quarter sales in the new year have fallen more than 6 per cent. Later this year its 3-Series is likely to feel the squeeze when Mercedes comes to market with its new entry-level C-class model which will be competitively priced at about the same level as the outgoing "baby-Benz".

According to Mr Edzard Reuter, chairman of Daimler-Benz, some 150,000 of the new model will be made this year, rising to about 200,000 in 1994 and 250,000 in 1995.

The stage, clouded with grim forecasts of nose-diving domestic demand and only sluggish (if any) recovery in export markets, is set for lively competition as manufacturers bid to catch the executive buyer's eye. The action is likely to be all the more interesting because all the main actors are new and, apart from Mr Helmut Werner, the former commercial vehicles boss assuming control at Mercedes, virtually unknown quantities.

Mr Eberhard von Kuenheim, who built up BMW into a world-ranking brand during his 23-year tenure as chairman, recently appointed Mr Bernd Pischetsrieder, 45, his youngest board member and production chief, to take over his role.

Audi's Mr Kortüm, 42, was brought in from a Mercedes sales outpost in North Rhine Westphalia to head an almost entirely new management board. Porsche recently replaced Mr Arno Bohn with Mr Wendelin Wiedeking, 40, who was formerly production director.

It is no coincidence that BMW and Porsche both chose production men to take over at a time of what Mr Piëch calls the worst crisis since the war. The name of the game for the foreseeable future will be squeezing manufacturing costs at every level, manufacturing in-house only those parts which cannot be made more cheaply by outside suppliers.

Christopher Parkes

■ The Germans: Mercedes-Benz

Extensive realignment of product policy

In a surprising departure from corporate tradition, Mercedes-Benz has decided to re-think the whole way it does business.

Under the radical leadership of Mr Helmut Werner, who takes over as chief executive in May, it is embarking on what he describes as "a very extensive realignment of its strategic product policy".

In practice, Mercedes-Benz has decided to transform itself from "a car manufacturer with a long tradition in the luxury class" into "an exclusive full-line manufacturer offering high-quality vehicles in all segments of the market," says Mr Werner.

Before the end of the decade the company is planning to launch a Mercedes-Benz people carrier or multi-purpose vehicle similar to the Renault Espace or the Toyota Previa; a four-wheel-drive leisure utility vehicle for off-roading or, more probably, for cruising the more elegant suburbs of the world's cities; and a small Mercedes-Benz city car for urban commuting. These will be produced in addition to the present three ranges of luxury and executive cars.

Mr Werner, in an important policy speech outlining the change of direction, admitted with surprising frankness earlier this year that Mercedes-Benz's present luxury cars were "over-engineered". He said that if the company persisted with such a policy for developing new models it would end up being "priced out" of world markets.

The break with tradition and the new awareness of pricing is to be marked already this summer with the launch of the new Mercedes-Benz C-class car range which will replace the 190 series.

The company has accepted that radical changes in the world vehicle market mean that Mercedes-Benz will no longer be able to demand premium prices for its products based alone on an attractive image.

In order to avoid the "trap" of being priced out of markets, Mercedes-Benz has decided to turn on its head its whole product development strategy. Instead of developing the ultimate car and then charging a correspondingly sky-high price as in the past, Mercedes-Benz is taking the dramatic and radical step of moving to "target pricing".

It will decide what the customer is willing to pay in a particular product category – priced against its competitors – then add its profit margin. It will then cost every part and component to bring in the vehicle at the target price.

Such an approach is not entirely new. Chrysler has begun to use it to great effect to fuel its renaissance in the US, but in Stuttgart this is the stuff of revolution.

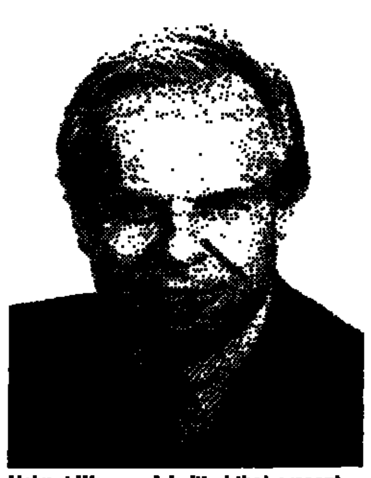
Mercedes-Benz's brave new world is not going to be won without pain and dislocation, however. Mr Werner accepts that the company still lags way behind its rivals in costs and productivity.

Fixed costs are "still appreciably too high", layers of management are to be removed, there will be a "rigorous pruning" of the white collar central staffs. The life-cycles of Mercedes products have to be reduced to about eight years from 11 years, while the development time for new products has to be cut from up to 57 months to less than 44. The break-even volume for a vehicle line must be cut to 60,000 a year, he says.

About 13,000 jobs were eliminated last year in Germany, reducing the workforce from 225,000 to 212,000 by the end of 1992. Another 14,500 jobs are scheduled to be cut in the coming two years.

There is to be a new decentralised organisational structure, with so-called "performance centres" aimed at achieving cost savings of up to 30 per cent. And more vehicle assembly will be moved outside Germany to locations such as Mexico, South Korea, Spain and probably the US.

Mercedes-Benz is to invest



Helmut Werner: Admitted that present luxury cars were 'over-engineered'

DM800m to build a new technical centre in Germany for the development of future car models. The new research and development centre will play a crucial role in the company's controversial reform plans.

According to Mr Dieter Zetsche, Mercedes-Benz director for car development, the company plans to concentrate all its new vehicle design, development and engineering operations at only two locations instead of the present 18 sites in south-west Germany.

The new technical centre will be built at Sindelfingen in south-west Germany near Mercedes-Benz's main domestic car assembly plant. It is planned to begin operations in 1996 and will have a workforce of about 4,500. The design and development of engines and transmissions will be concentrated at the group's Untertürkheim plant in Stuttgart.

Mr Zetsche says that the company is also seeking to increase its use of outside components suppliers to develop and produce parts and systems for future vehicles. It is aiming to reduce the amount of so-called "vertical integration" – the share of a vehicle made in-house rather than purchased from outside suppliers – from the present high level of 45-50 per cent.

Among Mercedes-Benz's new product plans, the people carrier or multi-purpose vehicle is closest to the market and should be launched by late 1994 or early 1995, says Mr Werner.

The vehicle, code-named T0, will be built outside Germany at Mercedes-Benz's plant at Vitoria in Spain. The company is planning to invest DM356m in Spain, and the capacity of the plant will be expanded from 28,000 vehicles a year to about 60,000 a year.

The new vehicle will be produced in two variants, as a passenger-carrying MPV and as a light commercial vehicle to replace the present MB-100 van.

According to Mr Werner, Mercedes-Benz's new direction is being forced by "radical changes in the structure of the car market." He maintains, that "the traditional vertical market structure defined by engine size is increasingly giving way to a horizontal market structure.

With a proliferation of niche vehicles such as MPVs, off-road vehicles and roadsters, it is body shapes and forms of propulsion (petrol/diesel/hybrid, electric) that are becoming the more important distinguishing features, rather than engine size and performance.

"Mercedes-Benz has to gear itself to a future market structured primarily around a diversity in vehicle concepts rather than around engine prestige value," he said.

As car buyers forsake the conspicuous consumption of the 1980s and place more stress on a vehicle's functional use than on its role as a status symbol, Mercedes is also beginning to investigate radical new ideas of car ownership and of selling cars.

By the late 1990s, Mr Werner suggests that personal car leasing programmes could be available, where the customer might have access to several different vehicles during the year, for winter and summer use, for holidays or for commuting.

In terms of production sites outside Germany, Mercedes-Benz has been developing plans for passenger vehicle production in the US and is assembling cars in small volumes in Mexico.

In South Korea, it has recently entered a far-reaching co-operation deal with Ssangyong Motor to enable the South Korean vehicle maker to begin car production in Korea based on Mercedes-Benz technology.

Ssangyong, the fifth-largest Korean vehicle maker, is planning to produce up to 50,000 cars a year from 1996 for sale both in the domestic and export markets. The Ssangyong car will be based on components and systems from the existing mid-range Mercedes-Benz 200/300 series.

According to Mr Werner Niefer, who retires as Mercedes-Benz chief executive next month to be replaced by Mr Werner, the deal with Ssangyong gives the German carmaker "the key to one of the biggest growth markets of the future."

Kevin Done

■ JAPANESE PERSPECTIVE

The sheen has faded

The sheen has faded for executive carmakers in Japan. After six consecutive years of double-digit growth, with sales 69.1 per cent higher in the year ending in March 1991, top-of-the-line vehicle builders are coming to terms with the maturing of the domestic market.

The slowdown has come as a shock to Japanese makers who invested in new capacity on the presumption that the hectic growth of the late 1980s would continue through the 1990s. The sluggishness has given these makers all the more incentive to broaden their market share in Europe and the US.

European carmakers have also been forced to rethink their strategies in the Japanese executive car market. When imports rose by 35 per cent in 1989, the Japanese market appeared the most lucrative in the world, but that rapid growth now seems more a by-product of the bubble era than a sustainable rate of expansion in an increasingly competitive market.

Sales volumes for Japanese cars with engines above 2,000cc – regarded as luxury-class vehicles – for the fiscal year ending March, were down 2.1 per cent, compared to the 7.2 per cent decline of total new car sales, excluding mini-cars.

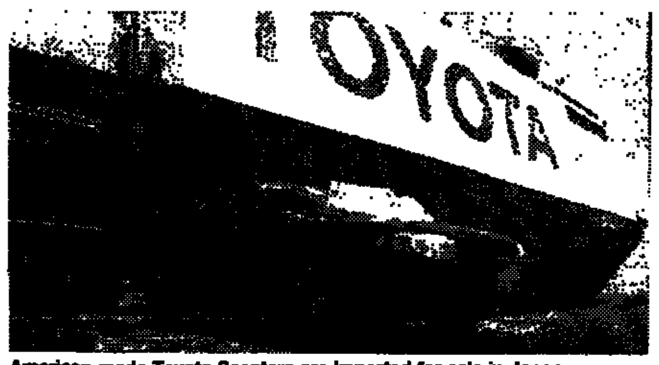
Japan's leading executive car producers, confronted by the realities of economic downturn are now recalculating their longer-term projections. Even an immediate economic recovery will hardly produce the sudden surges in sales that were characteristic of the late 1980s, Mr Ken Sawada, general manager of the international department at the Japan Automobile Manufacturers' Association, expects sales growth of about 1 per cent over the next few years.

Japanese consumers' emphasis in 1993 is on value not luxury. Companies are cutting administrative costs and reducing the number of cars available to executives. Individual buyers are holding onto their cars for longer periods or looking to second-hand vehicles. Last year, second-hand car sales grew 4.2 per cent. That trend is also reflected in the luxury market.

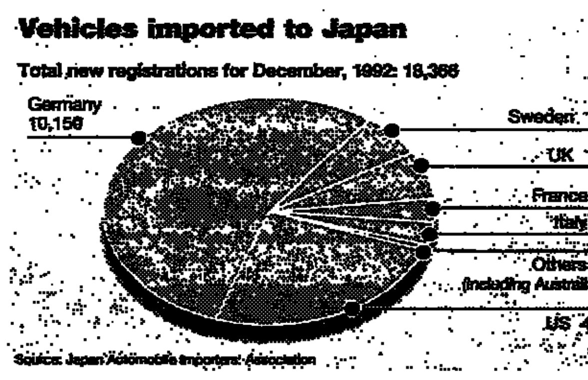
While the nation's new car ownership rose 3 per cent last year, sales of used cars with engines bigger than 2,000cc increased by 33.2 per cent, according to the Japan Automobile Dealers Association. Japanese carmakers hope they have already touched bottom, as better figures in March, when sales rose by 5.9 per cent, have generally been hailed as a sign that the economy and the car industry are heading into better times.

Toyota was the luxury leader in Japan for 1992 with a 42 per cent share, while Nissan captured second place with 20.7 per cent and Honda acquired third place with 13 per cent.

Mitsubishi and Mazda claimed 4.25 and 4.50 per cent of the domestic luxury car business respectively.



American-made Toyota Scepters are imported for sale in Japan



The Mazda case highlights the changed conditions in Japan. The Hiroshima-based carmaker was hoping that its Amati would be in the big league with Toyota's Lexus, Nissan's Infiniti and Honda's Acura – called the Legend in Europe – the three luxury brands that are making inroads into the international market at the expense of manufacturers such as BMW and Mercedes-Benz of Germany.

Mazda cancelled plans in March to produce cars in Europe with Ford and dumped blueprints last October to set up a separate dealer network in the US and Canada to sell high-priced cars under the Amati name.

The fifth-ranked Japanese *carmaker has been unable to* keep pace with the heavy investments needed to compete in the luxury sector. Mazda is expecting pre-tax profits for the fiscal year ended in March to drop 69 per cent to Y6bn yen, and simply does not have the resources or the models to match Nissan and Toyota at present.

During the bubble era of the late 1980s, when the Nikkei average rose ever higher, many companies were able to raise funds at almost no cost and they supplemented profits with financial dealings known as zaiteku. But the fall in stock prices and the market's inability to digest new issues has made carmakers more conscious of capital costs and return on investment.

In response to the nation's sluggish economy and low demand, co-operative relationships among Japanese vehicle makers are on the rise, where each company serves as the ideal supplier of models or parts for the other. Also, Japanese carmakers strive to trim production costs by standardising parts and reducing personnel.

Nissan, for example, plans to cut full-time staff by about 10 per cent by 1995, while Honda has cut one shift at its Saitama factory.

Mr Takashi Oka, general manager of passenger car production planning and marketing at Nissan's technical centre in Atsugi City, said that Japan's carmakers were having to come to terms with new identity. He recalled that 30 years ago, prices were low and quality was poor, yet Japanese still bought vehicles.

"Ten years ago, the quality was good and the prices were low and people bought them; now the quality is good but prices are high", he said, explaining that consumers had their price limits. Awareness of these limits is part of the 1990s atmosphere.

The troubles at home have not dampened the enthusiasm of carmakers to build a share in the European and the US executive car markets. Toyota and Honda started producing cars in the UK last year, alongside Nissan, which has been producing in Britain for six years. Mitsubishi is laying the ground work for a 1994-95 joint venture plant with Volvo in the Netherlands.

But the recent appreciation of the yen puts extra pressure on Japanese carmakers who had hoped to have a pricing and quality edge over western competition.

In the US, the strong yen, coupled with improved consumer perception of American cars, has eroded Japanese carmakers' market share, which in February was 27.2 per cent – the lowest level since 1989.

According to Mr Rainer Jahn, president of Mercedes-Benz Japan and chairman of the European Business Council's automotive committee, EC luxury car manufacturers who invested heavily in the Japanese market at a time when the nation's economy was considered invincible in the late 1980s, will eventually benefit from a Japanese economic recovery.

The fact that the total Japanese market has been growing over the past 15 years has created space for importers. But whether imports of foreign cars will expand rapidly is open to question, Mr Jahn noted.

So far, the downfall of Japan's powerful economy has hurt EC manufacturers, which dominate about 75 per cent of the imported car market in Japan. Sales volumes of EC carmakers fell 14.5 per cent last year, compared to an overall drop of 8.6 per cent for the passenger car sales.

Meanwhile Ford, General Motors and Chrysler collectively increased sales by 3 per cent, according to the Japan Automobile Importers Association.

The big gains on imported cars are ironically being made by Japanese producers. In March, for the first time, the top-selling manufacturer of imported cars in Japan was Honda, overtaking Volkswagen, BMW, and Mercedes-Benz, which have traditionally dominated the market. Honda's success shows that Japanese carmakers are not relaxing. They continue to emphasise quality and reliability, and may emerge when the present downturn ends even better equipped to compete with their European rivals.

Mr Oka at Nissan said that while corporate attitudes to cost had changed, the value-orientation of customers was not much different than during the 1980s. He is confident that rapid growth will return by the end of the decade.

However, it is not clear how long the downturn in Japan will last. Japanese carmakers have found it difficult to forget the rapid growth of the recent past, and still expect the executive car market to be an engine for profit growth. It is not clear how much room for expansion remains on Japan's already clogged roads.

Wayne Aponte

■ NORTH AMERICA

Most competitive market

A recent announcement by Mercedes-Benz that it intends to build a new sport-utility vehicle in the US underlines the changing nature and intense competitiveness of the American executive car market, where an extraordinary burst of Japanese success in recent years is now being met by a much stronger challenge from US and European rivals.

Mercedes is to make its first significant foray into manufacturing passenger cars outside Germany by building a new four-wheel-drive vehicle at a yet-to-be chosen site in the US. The new plant will cost some $300m and will have the capacity to make 60,000 vehicles a year, of which some 40,000 will be earmarked for export.

Its move underlines some important changes in the executive car sector. First, the "sports utility" category – which includes vehicles under the Jeep and Range Rover brand names – has not traditionally been regarded as falling under the executive car heading, but increasingly in the US this fast-growing market segment is competing at the upper end of its range against traditional executive sedans.

As Mr Helmut Werner, Mercedes' deputy president, said in announcing the US project: "The classic division of the market into luxury class, mid-size class and compact class is losing its importance."

Second, German luxury car manufacturers, no less than American ones, are having to adopt new tactics to cope with the inroads made over the past few years in the US market by Japanese executive cars, sold at extremely keen prices.

Mercedes is the second German company to decide to manufacture in the US and is following a lead set by BMW which broke ground last year for a new plant in South Carolina.

The advantages for both companies include much lower production costs than in Germany and proximity to the North American market, the biggest and most competitive in the world. The dangers include losing the status associated with a product bearing a "Made in Germany" label.

The Japanese have come from nowhere in recent years to account for almost one third of the US luxury car market, with Toyota's Lexus epitomising their success. Introduced in 1989, it changed perceptions of the relationship between price and performance by presenting buyers with a superior-quality, volume-produced luxury car selling below $40,000.

Nearly 40 per cent of Lexus buyers trading-in their old cars are defectors from European marques, with slightly less coming from American marques and 22 per cent from Japanese manufacturers.

However, the Japanese have been finding it harder to add market share over the past 15 months. In 1992, they gained 1.6 per cent of the US luxury market for a 30.8 per cent total, leaving the Big Three US carmakers – General Motors, Ford and Chrysler – with a market share down 3.6 per cent at 47.9 per cent and the Europeans up 2 per cent at 21.3 per cent.

Ms Susan Jacobs, an independent analyst, says the Japanese slowdown signals "an end to the period of easy gains when expansion of the product line-up across body styles and price levels supported rapid sales and share growth."

She says that this year the dynamics of the market will change, with "competition among the Japanese – as opposed to the Japanese versus the European and US Big Three makers – becoming an increasingly important factor in the pricing environment."

Certainly, intensifying competition among all manufacturers in a weak US market played an important role in last September's decision by Mazda, the Japanese manufacturer, to abandon plans to follow the lead of its rivals and establish a separate luxury car distribution channel in the US.

The channel, to have been called Amati, was to have begun operations in 1994. Other reasons for the company's decision included its existing heavy investment burden, appreciation of the yen, and a slump in Mazda's domestic Japanese market.

The US market was particularly weak last year when unit sales totalled 1.189m, down 5 per cent on 1991, with sales from the Big Three US manufacturers down 11 per cent, the Japanese up 1 per cent and Europeans up 5 per cent.

Contributory factors included an overhang from the recession of 1991 and the Bush administration's imposition of a 10 per cent luxury tax on cars costing more than $30,000.

Analysts expect the luxury market as a whole to grow modestly this year, possibly by about 5 per cent.

The sales recovery by European manufacturers is expected to continue, helped by keener prices and new product launches, while the Big Three are likely to see a further loss of market share as they phase out some of their more traditional models, which account for more than four-fifths of their luxury sales.

However, the Americans are also fighting back with a range of new products which are designed on more European lines. Cadillac, GM's luxury car division, has enjoyed particular success over the past two years with its new Seville and Eldorado models.

Chrysler is about to launch its new luxury cars, the New Yorker and LHS, which are slightly bigger versions of the much-praised LH series of sedans it introduced last autumn.

It is aiming to attract more sophisticated baby-boomers who usually buy imported cars, and its advertising campaign emphasises the models' departure from the traditional "floating boat" stereotype of American luxury cars.

"Float, wallow, dive and other American luxury car diseases cured," says one advertisement, while another claims the LHS is a car for those who "drive for sport" rather than seeking to "encapsulate themselves in a living room on wheels."

Ford, for its part, recently introduced the Lincoln Mark VIII – an all-new sports coupe with much more of an "import" look, designed to compete against the Lexus SC400 and the Cadillac Eldorado.

Cars such as these offer Detroit hope that its long slide against the Japanese in the luxury segment of the market can at least be stemmed, if not easily reversed.

Martin Dickson

EXECUTIVE CARS 4

■ THE FUTURE

Appearances will be deceptive

What radical changes have the manufacturers of executive cars in store for buyers as the decade draws to a close? On the face of it, not many. The real developments will occur beneath the cars' more slippery surfaces. The vehicles will look similar to today's.

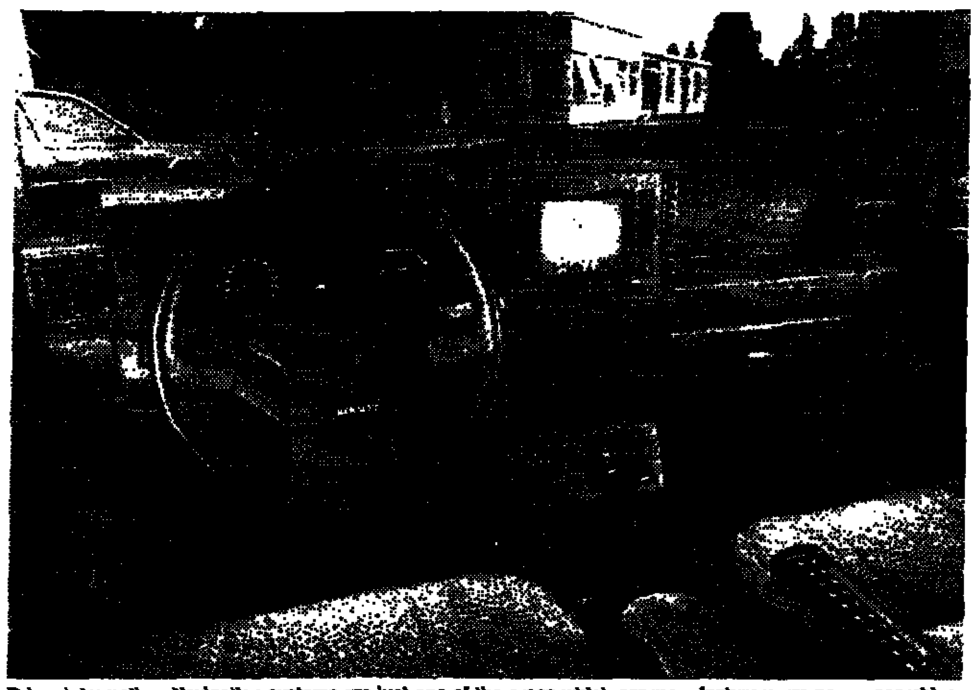
Key components such as engines, transmissions and suspensions are unlikely to change radically, despite experiments now taking place to change that. The cars will also be made in a similar way.

The main differences will be hidden inside, driven by the frequently conflicting requirements of environment concerns and safety legislation. The designer's dilemma is to balance expectations of better fuel consumption and lower exhaust emissions with those of higher equipment levels and greater crash protection. The problem is that demands on one side mean taking weight out, and on the other mean adding it.

Increasing attention to environment and safety will redefine future executive cars every bit as much as they will city run-abouts. But as the years unfold, the cost of putting the latest technologies and new materials into showroom cars will ensure that executive cars are the earliest pioneers.

It is far easier, for example, to incorporate the cost of an on-board navigation system or rear-seat air bag on a £40,000 saloon than on a £10,000 hatch-back. Only later, as volumes increase and costs come down, will similar devices spread to cheaper cars.

There are scores of precedents, ranging from fuel injection and anti-lock brakes to multi-valve engines and air conditioning. Kit like this, regarded as exotic only a few years ago, was once fitted only on expensive, high-performance cars. Now it is commonplace on much more modest family saloons.



Driver information: Navigation systems are just one of the areas which car manufacturers are now researching

For an indication of how little the executive car's appearance will change over the coming years, it is necessary to look no further than the concept coupe which Mercedes-Benz displayed at the recent Geneva motor show. While sleek and rounded by Mercedes standards, its lineage is self-evident. But that car, or one rather like it, will go into production as a coupe based on the next 200-300 Series. That means it will still be on sale in the next millenium.

Where future generations of cars will differ is in packaging. They will contain similar amounts of passenger and luggage accommodation in smaller bodies. It is part of an industry-wide downsizing. Just as mass-producers such as Volkswagen and Fiat are pressing ahead to bring cars smaller than the Polo and Uno to market, so up-market makers are planning models smaller than those they have traditionally sold.

The best-known example is the surprise announcement by Mercedes in January that it will build a town car. BMW's experimental Z13 city car is a clear indication of its thinking. Audi, too, has decided to produce a Golf-sized model later this decade. Saab is considering a small car rather than the limousine it once planned.

None of this means abandoning the luxury market. Those cars will still be made. But they will be more compact, without forfeiting the traditional creature comforts and performance which buyers at this price bracket expect.

One significant departure may be the use of aluminium for a car's chassis. The metal has long fascinated car engineers, who admire its weight-saving – and therefore its potential to improve mileage or performance – while having reservations about its cost and ease of production and repair.

According to Mr Bernd Pischetsrieder, chairman-designate of BMW, "A BMW 318 made of aluminium would have the performance of a 325." Ford's experimental Synthesis 2010, an aluminium saloon in the Taurus category, is 8cwt, or 28 per cent lighter than the car around which it is based.

Honda's low-volume NSX sports car is so far the only production model to use an aluminium chassis. Now the industry is awaiting Audi's replacement for the V8 saloon this autumn. Known as D2, the top version will utilise an aluminium chassis.

Equally important, electronics will feature even more prominently. They already manage many automatic transmissions and engines for maximum efficiency. Now they are at the heart of research into areas such as noise control, active suspension, electronic steering, navigation systems, head-up information displays, multiplex wiring and cruise controls which maintain distances between moving vehicles.

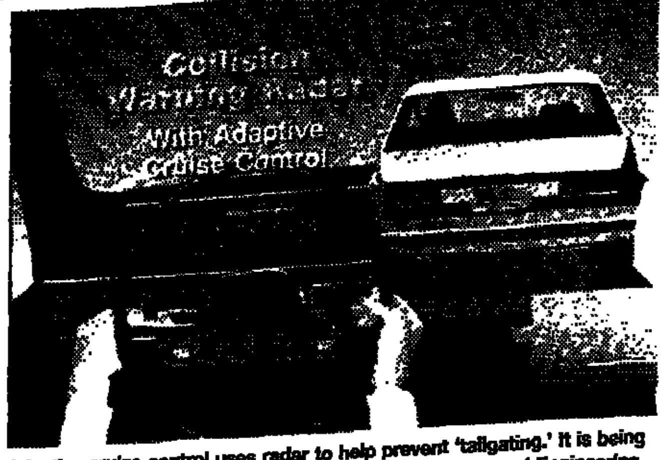
"What we have now is a mechanical device with electronics attached to it," explains Mr Bruce Blythe, until recently Ford of Europe's vice-president in charge of strategy. "In the future, we will have electronic devices complemented by mechanical parts."

The other area claiming large proportions of research budgets is power units, as companies endeavour to cut emissions and improve economy. They were given added impetus when California – an important and wealthy market – laid out a timetable requiring ultra-low and zero-emission vehicles (Ulevs and Zevs) at the end of this century and into the next.

The development prompted America's Big Three manufacturers – General Motors, Ford and Chrysler – to join forces for the first time in an electric power consortium. Battery-powered cars are unlikely to have the same impact in Europe, at least in the foreseeable future, although any company which wishes to sell cars in California needs an electric car programme.

In the main, though, car companies are relying on further refinement of internal combustion engines to give them the improvements they need in the late 1990s. At Jaguar, that means testing two-stroke V6 engines. BMW and Mazda think there is potential for hydrogen power. Direct injection of diesels will become much more commonplace.

Many other companies are turning to methanol (neat or mixed with petrol) fuel, or to hybrids. These usually combine battery power (for use in towns) with petrol or diesel engines (for use over long distances and for recharging the batteries).



Adaptive cruise control uses radar to help prevent 'tailgating.' It is being developed by Hughes, Delco Electronics and GM Advanced Engineering

Volvo's attention, on the other hand, is focused way into the future with the Environmental Concept Car it revealed last September. The aluminium ECC, which combines nickel-cadmium batteries with a diesel-fuelled turbine, is Volvo's idea of a four-seater for the year 2000. Ambitious, certainly, but few of Volvo's competitors believe anything like ECC will be on sale by then. Their faith is in incremental improvements rather than the great leap forward.

Richard Feast

■ THE UK INDUSTRY

Manufacturers are kept guessing

THE size and structure of the UK executive car market has been dictated, to a very large extent, by two price "break points" and – since 1988 – a 2-litre engine size threshold above which company car taxation levels increase considerably.

Carmakers and importers have adjusted their production and marketing strategies to take advantage of this. That they have felt constrained to do so is an illustration of the importance of the business car sector relative to their total sales.

For example, although BMW makes "only" 40 per cent of its sales to business "fleet" buyers – its own definition is a company taking 10 or more of its cars – it believes that as much as 85 per cent of its total sales are business-linked, through sales to accountants, small partnerships and similar entities. Thus these purchases are also subject to company car taxation calculations.

From next year, the existing tax framework will be dismantled in favour of a much simpler system based on a percentage of a car's retail list price. Company executives will then be much freer to choose what cars they like.

For the moment at least, what those buyers will like remains a matter of important guesswork for manufacturers seeking to determine what their future model line-ups should be. Some strands of likely change are starting to appear, however.

One of the most important is diesels. The arguments in their favour are already powerful. They are much more economical than equivalent petrol models, by up to 30 per cent. This is assuming greater importance as the price of fuel continues to rise by well in excess of inflation.

The price premium demanded by manufacturers for their diesel models is also disappearing as economies of scale on diesel engine production increase.

And, important in terms of improving their performance in the executive sector, the larger engines size needed to deliver supposedly similar performance to a petrol engine will no longer be subject to a tax penalty next year.

The volume manufacturers fit diesels in their executive car ranges as a matter of course. But the take-up to date has been relatively low because of their sedate image and the engine-size tax penalty.

However, the latest high-speed turbocharged car diesels, far from being inferior in performance to glamorous-sounding multi-valve "Gti"-type cars, are superior to them in most normal conditions of use.

Their relatively much greater torque delivered at low engine speeds is more usable than high power – as the executive sector itself is poised to discover.

Citroën is setting the ball rolling with a "Volcane" version of its ZX which it is marketing as a "hot hatchback" in every sense, including outright performance. Nevertheless, beneath the bonnet is a turbo diesel also capable of up to 50mpg.

But the watershed will be reached in mid-year when BMW, the German executive car maker whose image has been built largely on high performance, launches a range of diesel cars in the UK.

It is doing so with trepidation, anxious that its performance image should not be prejudiced among British customers who have been buying some 40,000 BMWs a year. Nevertheless, many industry observers believe its initial 900 sales target is an underestimate of likely demand for a car still capable of about 120mph.

Vauxhall, Ford and some other makers also expect an increase in the capacity of petrol engines chosen by many buyers as a result of the tax penalty disappearing.

Under the existing taxation regime, the "typical" executive car has tended to be a highly specified model of just under 2 litres. Now, they expect, many buyers of such cars will be willing to pay a bit extra for, say, a 2.5-litre V6 of the type that Vauxhall has just put into production at Ellesmere Port. A further significant number of buyers, they believe, will opt for the larger engine but a less luxurious specification in order to minimise their liability to tax under the incoming list price taxation scheme.

A trend towards smaller cars – so-called 'downsizing' – is likely to be boosted further by the new freedom to specify cars with larger engines

With traffic congestion continuing to increase, an already apparent business car market trend towards smaller cars – so-called "downsizing" – is likely to be boosted further by the new freedom to specify cars with larger engines. Vauxhall has already caused a stir in this context by launching the V6 in a relatively cheap version of its medium-sized Cavalier.

A big problem with analysis of the executive sector is that each manufacturer tends to define the sector differently.

However, BMW is widely regarded as the archetypal "executive" car. On its analysis, the lower end of the executive car market – which it defines as including its own 3 Series, Volkswagen Golf GTi and VR6, top specification Cavaliers, Rover 400s and similar – was badly hit last year by a sales drop of 19.75 per cent in a total market which was almost unchanged from 1991. In unit terms, sector sales fell from 555,319 to 445,637 – within which, however, BMW's own share rose from 4.6 to 6.3 per cent. But it was a long way behind segment leader Ford whose share was 22.5 per cent – even if down from the 25.7 of 1991.

However, previously the sector had been doing relatively much better than larger executive cars, which were themselves hit by the imposition of the 2-litre tax break in 1988, causing a sales plummet in 1989, for example, of bigger-engined cars typified by Jaguars and BMW's 7 Series.

The "middle" executive segment typified by BMW's 5 Series also went into a sharp downturn in 1991, by more than a quarter, so that last year the fall of 6 per cent to 105,802 from 112,554 was relatively mild.

It is a sector fought over fiercely by, among others, Volvo's 800 and 900 Series cars, Granadas, Rover 800s, Saabs and mid-range Mercedes. Last year, BMW saw its share shoot up to 10.3 per cent from 5.9. But its satisfaction was minor compared with that of Rover, which knocked Ford off its market-leading pedestal and down to fourth place.

It is volume manufacturers, rather than their more obvious rivals, that companies such as BMW and Audi have most cause to fear. For all the volume makers are seeking to acquire for their more expensive products exactly the same type of image that BMW and its cohorts are most anxious to protect.

Rover, with its just-launched 600 range – developed jointly with Honda, whose own Accord version is now in increasing production at Swindon – provides one of the most obvious examples of that threat.

Strictly speaking, it is no more a "volume" manufacturer than BMW – indeed Rover's own output was considerably lower than the Bavarian manufacturer's last year.

But Rover has been working hard to distance itself from its BL "volume car" roots and many believe that with the 600 its success will accelerate sharply.

Professor Garel Rhys of Cardiff Business School, a motor industry guru, is one such believer. He only half-jokingly refers to the new Rover as the "BMW 400".

John Griffiths

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■ COMPANY CARS: EUROPE

British addiction has gradually spread

The finance director at a large US group's European headquarters in Brussels for years resisted all entreaties by middle managers to introduce a company car scheme. The finance man was an American and he carried with him American attitudes. Companies in the US usually allocate company cars to only a handful of top executives, for status reasons, and to sales people when they need them.

Eventually the finance director was promoted and replaced by an Englishman. One of the first changes he made was to find a suitable company car scheme for middle managers.

Almost certainly the new finance director had a personal interest. He would have had long experience of the benefits that company car provision can bring to an executive - benefits which would be just as valuable in Brussels as in London. He would have enjoyed the hassle-free aspects of company car ownership which most managers believe more than makes up for the tax they have to pay on the notional value of this perk.

This is an illustration of how the UK addiction to the perk company car has gradually spread through the rest of Europe.

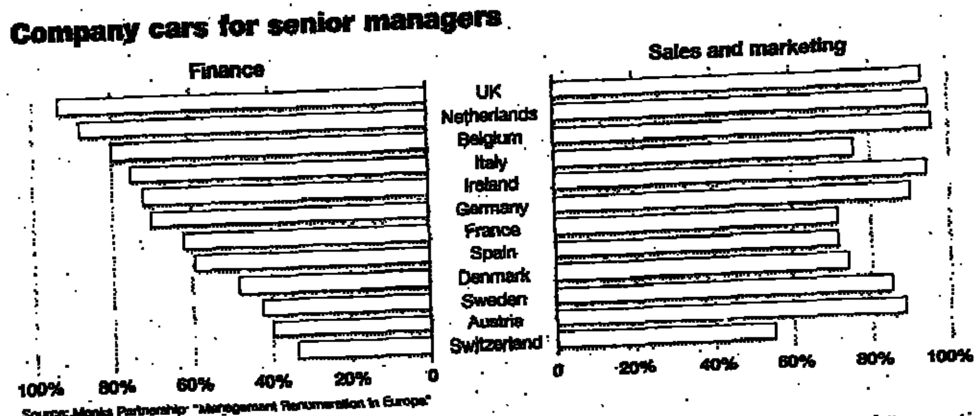
The virus took hold in the UK for good reasons. During the 1960s and early 1970s there were periods of pay "freezes" and continuous high personal taxation. Companies had to find ways other than salary increases to capture and retain skilled managers. Before long, even relatively junior members of the management team were allocated company cars.

The UK government in recent years has been attempting to reduce the burden of personal taxation and, to even the balance, has pushed up substantially the tax on perk cars, arguing that companies no longer have to use this benefit as an incentive. But, despite the government's determination and even in the depths of the deepest recession the UK has witnessed since the Second World War, very few companies have made big cuts to their car schemes.

Meanwhile, the concept has been growing more and more popular in other European countries. Executives all over Europe now enjoy having "wheels" supplied and maintained by their companies. The trend was certainly encouraged by the speed in which perk car provision accelerated in the UK.

Many international companies have their European headquarters in the UK, so their executives picked up the habit there. As the Brussels example quoted above goes to show, UK executives at multinational corporations carried the concept with them when sent to other parts of Europe.

Company cars for senior managers



Source: Monks Partnership "Management Remuneration in Europe"

The spread of the virus has also been helped by the fact that company car provision policies are not usually decided at the centre in large corporations but are left to local management to sort out.

Tax authorities all over Europe now take account of the perk car as a matter of course and executives pay tax on the notional benefit one way or another. According to Mr Tony Vernon-Harcourt at Monks Partnership, the UK-based remuneration consultants, the tax rate is usually based on between 20 and 25 per cent of the capital cost of the car. Since the recent UK Budget, Britain is now coming into line with this concept.

Monks recently looked at 7,600 posts in 1,342 organisations in Europe and found that a car was included in the remuneration package of most senior managers in all countries except Switzerland. In that country there are good tax reasons why only just over half the senior managers have company cars.

Mr Vernon-Harcourt stresses, however, that tax is by no means the prime consideration when senior managers are considering their company car policies. The status of individual managers and "competitive practice" [the fact that other companies are offering this benefit] are more important in the decision.

The Monks research showed that the general manager of a subsidiary of a multinational business is virtually assured of a company car wherever he might be positioned in Europe. The number of companies offering this benefit ranged from 98 per cent in Spain and Belgium - both beating the UK's 97 per cent - to 83 per cent in Denmark and the Netherlands and 68 per cent in Switzerland.

The pattern was very similar for directors responsible for a leading function such as finance, sales or production and ranged from 100 per cent in Ireland and 97 per cent in Germany to 65 per cent in Sweden and 56 per cent in Switzerland.

Policies begin to diverge in Europe when it comes to allocating company cars to less-senior managers, such as the chief accountant reporting to the finance director or the sales manager reporting to the sales director.

Monks' Management Remuneration in Europe Survey shows that in some countries, such as the UK, the Netherlands and Germany, the incidence of car allocation at this level of management remains high - at about 80 per cent - whereas it falls to about 65 per cent of similar posts in Italy and France and below 40 per cent in Denmark, Spain and Switzerland.

Undoubtedly there is great reluctance in some countries to allocating perk cars below board level. The car as a necessity is another matter and Monks found that in France and Italy a manager below board level was more likely to be allocated a company car if employed in sales and marketing rather than in accounting.

Because a perk car is supposed to be an incentive to join and remain with a company, in the UK the concept of the user-chooser has also taken hold: the executive, or the sales person, can select a car from a list offered by the company.

Monks estimates that only 2 per cent of UK companies do not offer this benefit to directors and only 12 per cent do not offer it to sales people. On the other hand, half the companies in Austria do not even give directors a choice and 70 per cent do not offer a choice to sales representatives.

Germany follows the middle road, with 30 per cent of companies not offering directors any choice of company car and 26 per cent not offering sales people a choice.

Monks also attempted to discover differences in the cost of cars allocated to various managers in European countries compared with the cost of those used by sales representatives. Comparisons between countries are difficult to make because of shifting currency alignments, but it is clear that in the Scandinavian countries the sales person's car is often nearly as good as the one offered as a perk to managers.

"The question is," says Mr Vernon-Harcourt, "does this reflect the fact that Scandinavian sales reps have to travel long distances, often in poor weather conditions and have to have cars as good as managers, or does it simply reflect Scandinavian egalitarianism?"

Kenneth Gooding

■ COMPANY CARS: THE UK

Shake-up in 'perk' sector

NOT since the "perk" car first appeared in numbers as a way of getting round pay restrictions in the early 1970s has the company car sector faced such a shake-up as that which will arrive on April 6 next year.

On that day, out will go the long-standing system of personal taxation of the company car benefit based on three engine-size bands and two price "thresholds".

In its place will come a much simpler system, in which tax will be payable on a fixed percentage of the manufacturer's listed retail price of the car - its "list" price - plus any extras.

The percentage is fixed at 35 for drivers covering fewer than 2,500 business miles a year (the classic "perk" car), with a "discount" of one third, to 23.3 per cent, for drivers covering 2,500-18,000 business miles and of two-thirds, or 11.7 per cent, for drivers covering more than 18,000 business miles. These mileage bands, at which more favourable tax treatment is given, are about the only "leftovers" from the current system.

Employees entitled to two company cars will find that both will be assessed for tax on exactly the same basis, so that the second car - where no business mileage is likely - will be taxed at the highest rate.

The new taxation structure has sent a tremor of dismay through companies such as Rolls-Royce Motors and Aston Martin

As with the current system, there will be no reduction in the scale charge payable on a car until it is more than four years old, when the charge drops by one third.

In the broadest terms the new system will mean a higher tax bill for about 700,000 of the Inland Revenue's estimated 2m company car drivers, but unchanged or reduced bills for the majority.

In some cases, particularly that of executives with cars priced at just under the £19,250 or £29,000 thresholds of the current banded scale charge system, individuals face tax rises of up to 80 per cent.

Because there is no "cap" on the system, drivers of very expensive cars face tax bills of potentially daunting proportions. Anyone who is running one of Jaguar's £415,000 XJ220 sports coupes on the company, for example, and covering fewer than 2,500 business miles with it, will next year face a tax scale charge of £145,000 or an actual cash payment of £58,100 at the higher marginal rate of personal income tax.

Under this year's scale charge structure, that same XJ220 driver has a scale charge of £15,060 and an actual payment of £6,024.

At a slightly less exalted level, the new taxation structure has sent a tremor of dismay through companies such as Rolls-Royce Motors and Aston Martin, each with cars in the £100,000-plus sector.

Rolls-Royce Motors, still struggling to emerge from heavy losses, has already asked the government to relent and set a ceiling on car prices above which the tax charge will not rise any further. So far, the appeal seems to have fallen on deaf ears.

But it is not only new luxury cars which will fall foul of the fresh system.

Many executives have chosen to run classic cars, from James Bond-style Aston Martins to exotic 1960s Ferraris, as low-mileage company cars providing something "different".

They could do so because they were taxed on the basis of original market value, rendered insignificant by inflation.

The new system will base tax levels on current market value, the precise fixing of which has yet to be spelt out. Even though the bottom has already fallen out of the classic car market because of recession, the new system inevitably will damage the sector's hopes of recovery next year.

Despite this, the new system is not intended by the Treasury to produce any increase in real terms in the total tax take - now approaching £1.5bn - from the company car benefit. That has already been taken care of by further stiff increases in tax scale charges applicable during the current tax year, and announced in last month's budget by Mr Norman Lamont, Chancellor of the Exchequer.

Mr Lamont now regards the company car overall to be fairly taxed relative to private motorists as a result of this year's 8 per cent increase in the tax scale charge on the car benefit itself, 20 per cent on the tax charge on free fuel for private use and the ending of the 50 per cent reduction in the fuel scale charge for high business mileage drivers.

If there are big losers under the new system, there will be a substantially larger number of "winners", particularly among the drivers of lower value cars which are in genuinely essential business or working use. Tax bills for these could fall by as much as one third.

The driver of a 2-litre Rover 800 with a price just under £19,000 currently pays tax on a scale charge of £4,485 if he or she covers less than £5,000 business miles, as the car is assessed solely by it being in the 1.4litre-2litre engine capacity band. Under the new system, however, it will attract a scale charge of about £6,700, based on 35 per cent of "list" price.

In order to avoid paying extra tax, and all other things being equal, the driver would have to switch to a car with a list price of about £12,800.

Not only should the new system mark the end of production of the "tax break specials" and other market distortions already much criticised by the Monopolies and Mergers Commission - it has the benefit, from the manufacturers' point of view in particular, of being self-adjusting.

Instead of the new car market holding its breath each year waiting to see by how much the Budget would increase scale charges, no action should be needed. The amount of tax payable will be determined by the rate of increase in new car prices.

So the new system will contain inbuilt incentives for both companies and employees to choose smaller and more fuel-efficient cars - seen as desirable on environmental grounds - and act as a brake on manufacturer price increases.

Once certain effect of the latest scale charge increases and the new system is to make many more companies and their drivers examine whether the time has come for the car keys to be handed over in favour of a cash alternative.

There are no straightforward rules to follow in determining whether the company or employee will benefit from such a switch to cash. Whether it will be worthwhile depends on each individual's circumstances and will need precise calculation.

Nevertheless analysts such as Mr Stewart Whyte, a director of consultancy Fleet Audits, and Mr Brian Friedman, managing director of Stoy Benefit Consulting, predict that it will become much more widespread, particularly for "perk" users who would then be able to take advantage of current high depreciation rates by buying "nearly new".

John Griffiths

EXECUTIVE CARS 6

■ ADVENT OF THE EXECUTIVE DIESEL

Budget changes will work wonders

The chancellor of the exchequer's decision to tax company car benefits on list price alone, rather than on a combination of price and engine capacity, will do wonders for the diesel's share of the executive car market.

So far, most of the growth in UK diesel registrations, which just topped 200,000 last year, has been in the below £15,000, under 2-litres size and price class. That was a reflection of the financial penalty – roughly a doubling of the monthly tax take – paid by executives public spirited enough to run environmentally-friendly diesel cars with engines bigger than 2 litres.

The user-chooser who drives a Mercedes 190D 2.5 (list price £21,600) for between 2,000 and 18,000 business miles a year paid £2,300 tax under the old rules. This goes up to £2,481 in the current tax year but drops by £467 to £2,017 in tax year 1994-95.

According to research by BRS Car Lease, 63 per cent of company car operators believe the budget changes will encourage drivers to switch to diesel. A similar number – 61 per cent – considered more companies would introduce diesel-only policies for their fleets.

Hertz Leasing supports this view. It said the budget "would stimulate companies to consider the environmental impact of road travel in a way that promotes thoughtful use." This would mean the increased use of diesel cars "which appear to have a positive contribution to make in reducing the emissions of a wide range of pollutants."

So the scene appears to be set for a considerable increase in registrations of all kinds of diesel-engined company cars and of executive models in particular. Glass's Guide, the motor trade's bible, forecasts 230,000 diesel registrations this year. This may well turn out to be an under-estimate.

Much of the prejudice which used to lump all diesel cars together as slow, boring, noisy and smelly has been swept away. Now, almost the only motorists who believe such a calumny are those who have never driven a modern diesel car. While a diesel engine can never be quite as silent and refined as a petrol engine, some of the latest ones get very near to it. Improved technology – such items as two-stage injectors and electronically-controlled fuel pumps – have muffled the anvil chorus once heard when a car diesel was cold-started. When warmed up to proper running temperature, a modern small diesel does not clatter. It merely mutters.

Outstanding among the smaller ones are the Citroën ZX 1.9td and the Vauxhall Astra, the latter fitted with a 1.7-litre engine supplied by GM's Japanese affiliate, Isuzu. With 92 horsepower and 130lb/ft torque, the Citroën has so much sparkle that it outperforms many petrol-engined cars in the same price class. A Volcane version, just introduced, looks what it is; a diesel GTi with a top speed of 115mph and 0-60mph acceleration in 10.3 seconds.

The Isuzu 1.7 turbo engine (82bhp and 124lb/ft torque) has significantly boosted sales of both Vauxhall Astra and Cavalier diesels. The Citroën's refined and muscular 1.9-litre XUD unit will be seen shortly in the new Citroën Xantia (due in the UK in May) and Peugeot 306 diesels.

Direct-injection engines provide even better fuel economy than those with indirect injection. Although Rover was first in the field with a direct-injection turbo-diesel car (the Montego), the most successful application so far is by Audi. The 1.9-litre Audi 80 and 2.5-litre Audi 100 TDI models are fast, with top speeds of 110mph and 124mph and 0-60 mph acceleration times of 14 seconds and 10.2 seconds respectively. The 80TDI averages 44.5mpg and the 100TDI, when equipped with a six-speed manual gearbox, a superb 46.4mpg.

Now that the essential very high pressure fuel injection technology is well understood and the equipment economically feasible to make, many more cars will be fitted with direct injection diesels.

Another growing trend will be the use of multi-valves, pioneered by PSA with the 2.1-litre, 12-valve Citroën XM and Peugeot 605 engines and soon to be taken a stage further by Mercedes-Benz, with 16-valve engines in the C-class.

Today's diesel-engined executive cars are as quiet to cruise on motorways as their petrol-engined equivalents. The old idea that diesel car drivers were interested in nothing but economy was discarded long ago. Executive-class diesel users may now choose models with the highest trim and equipment levels, including ABS brakes, leather seats and air conditioning.

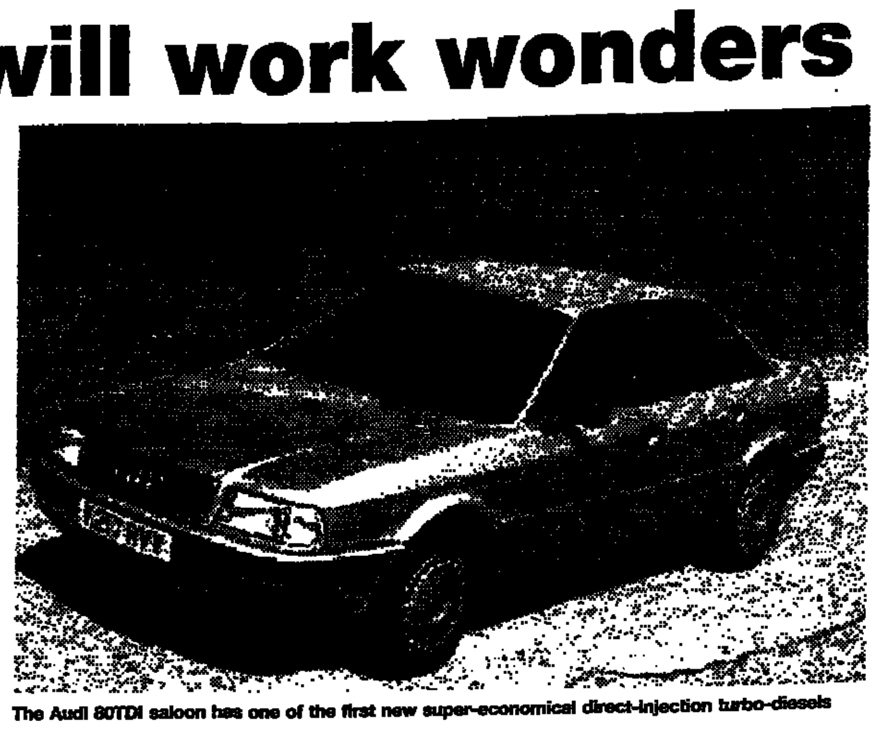
One area in which progress still has to be made concerns automatic transmission. Few two-pedal diesels are available although Mercedes-Benz, which has offered it throughout its diesel car range for many years, is a notable exception. Citroën, too, has an automatic option in its small-medium ZX as well as the big XM which soon will be joined by two-pedal diesel Xantias. Vauxhall's Carlton is another good diesel automatic.

It is a pity that the choice is so limited because automatic transmission marries very happily with a diesel engine in a car having adequate power-to-weight ratio. The argument against it has always been high cost. At one time the price premium for a diesel car was anything up to 10 per cent. Now it is far less and in some cases has virtually disappeared, due in part to the extra cost of fitting petrol cars with elaborate catalytic converters.

It is not fanciful to suggest that as fuel prices steadily outpace inflation, the turbo-diesel – up to 30 per cent more economical – will become the typical executive car of the late 1990s. Drivers will grow used to tanking up at 500-mile intervals; companies will cut costs; and the environment will benefit.

Stuart Marshall

Hot hatchback with a difference: the fast and sporty Citroën Volcane is turbo-diesel engined



The Audi 80TDI saloon has one of the first new super-economical direct-injection turbo-diesels

■ The marketplace: discounts and residual values

Prices are hardening month by month

It is a truth universally acknowledged that discounting of new cars leads to lower residual values when the time comes to sell. Therefore – because it is a fact that in the past couple of years discounting has been rife even at the upper end of the market where manufacturers such as Mercedes-Benz and BMW had previously always managed to persuade their dealers not to resort to price-cutting in *order to move the metal – residual values* of these models must inevitably fall.

Or must they? If there is a direct correlation between discounted new car prices and used car prices, then why are residual values of executive cars actually rising?

A glance at either of the two trade price guides – Glass's Guide and the CAP Black Book – shows prices of good quality used executive and luxury cars hardening month by month. For example, the April issue of CAP has higher values for the Alfa Romeo 164, Audi S2, BMW 850 and Ford Granada 24v.

It reports franchised dealers scouring the country looking for late, low-mileage Jaguars and Daimlers, Rolls-Royce and *Bentley prices picking up and the short*-age of late Vauxhall Carlton cars pushing prices up in Vauxhall dealerships.

"Residual values of executive cars are a *lot better than they were a year ago*, mainly because of continued very poor new car sales," says Mr Leslie Allen, director of Glass's Guide Service. "There has been a marked improvement in one- and two-year-old vehicle values compared with a year ago – partly because there have been fewer trade-ins, but also because of the rapid expansion of private number plates which disguise the true age of a car.

"This in particular is having a far bigger effect on values than people imagined", he said, explaining that many people – particularly the self-employed or those running their own companies – were quite happy to save money by *buying a late-model used car instead of a* brand-new one and then fitting a private *plate* so neighbours and business associates were unaware that the "new" car *was not quite what it seemed.*

Furthermore, on top of this sort of demand, the very poor level of new car sales since the peak in 1989 means there are inevitably fewer used cars coming onto the market today, and the result of that shortage is to push up values.

Mr Geoff Becque, director of Leasecontracts, one of the contract hire firms buying thousands of cars a year and thus more exposed than most to falling residual values, says that although discounting in the past did have an effect on prices, that is no longer the case.

"The market had to respond to falling residual values which were suffered in the early 1990s. The situation was not improved by certain manufacturers – such as Jaguar, Mercedes-Benz and Lexus – giving discounts where earlier no such deals were available.

"But most of the depreciation suffered by executive and luxury cars was not caused by the discounting but by the state of the economy, because the majority of the buyers of second-hand BMW 7-Series or Jaguar XJ6 models are small businessmen and they simply stopped buying when times got tough.

"When confidence does return, these people will return to the marketplace and values will go up again, but in the meantime the manufacturers are desperately trying to stop the discounting of the recent past".

Mr Becque quotes examples, such as £8,000 off a Mercedes-Benz 500SEL and massive deals being done on BMW 7-Series transactions in the recent past, but he says there has already been a change in attitude, both at manufacturer and dealer level.

"The majority of manufacturers and importers have now followed Vauxhall's lead and reduced dealer margins to 10 per cent, so there is less money available with which to deal. The discounts are simply no longer there to give away".

Furthermore, he says, any generalisation about residual values of luxury cars is dangerous because the right cars in good condition and with low mileage "are making good money and prices are improving".

To help residual values continue to increase, manufacturers and importers are ensuring no great oversupply of new vehicles to dealerships, despite the continuing low level of sales overall. BMW, for example, having found itself in a position of oversupply at the beginning of the year, has simply turned the tap off and reduced production of right-hand-drive cars until August this year.

With fewer cars available to the dealers, salesmen are beginning to realise that their bottom lines are going to suffer considerably if heavy discounts are offered to their customers. While corporate customers may still find themselves being able to negotiate a modest 7.5 per cent, there are far fewer of the silly deals seen earlier in the year.

The result is already apparent. Mr David MacDougall, general manager of BMW dealers Coombs of Guildford, says: "In fact, residual values are very strong at the moment because there are so few good used vehicles around. It's the first time I can remember when used values are actually going up in Glass's Guide".

But today, as in the past, the first owner of a luxury executive car still has to suffer quite horrendous losses in value over the first two years of ownership. Typically, values of a two-year-old car in this sector of the market will be between 45 and 60 per cent of the cost new.

Martin Derrick

■ UPHEAVALS IN SCANDINAVIA

Volvo and Saab struggle on

The future direction of Swedish carmakers Volvo and Saab Automobile is inextricably tied up with their respective volume car partners, Renault of France and General Motors of the US. Both Volvo and Saab are battling to staunch continuing heavy losses.

This summer, Saab Automobile will finally unveil a successor for its venerable 15-year-*old 900 series, a car whose origins even date back a decade* earlier to 1968.

The car will be the first fruit of the new model programme that has been under development since General Motors of the US took over control of the ailing Saab car business at the end of 1989.

Volvo has also accepted that it is unlikely ever to develop a new car range again alone. In one of the most far-reaching steps to date in the ambitious alliance with Renault, the two companies have decided to *develop jointly a new range of* top-of-the-line executive cars to be sold in Europe from the end of the decade.

The two groups decided in the final months of last year to develop a common platform for the new range, which would allow the use of many common mechanical components, most importantly common engines and gearboxes.

While having a high degree of commonality "under the skin" the cars will have different body styles and will maintain independent Volvo and Renault brand identities for sale through the two carmakers' separate distribution networks. The director of the joint car project is from Volvo Car.

It is expected that the Renault version will replace its Renault Safrane executive car, which was launched last year in Europe to replace the Renault 25. According to Renault, the new joint car range would also replace the Volvo 850 which has been launched by the Swedish car maker during the past 18 months.

The joint Renault-Volvo car project is taking a similar approach to that already used by the Peugeot group for its Peugeot and Citroën marques. Its current top-of-the-range Citroën XM and Peugeot 605 cars share a common platform, engines and gearboxes, but maintain very separate identities in the market.

The joint car project marks a significant step forward for the two vehicle makers, which have been developing a far-reaching alliance since September 1990. They were already co-operating in areas such as purchasing, quality, research and marketing policies. Now, the two companies are seeking to use their larger joint purchasing volumes in order to push down supply costs. The aim is "to control *costs by reducing purchasing* prices" with the target of bringing the proportion of the two groups' total purchases from joint outside suppliers to 80 per cent from only 20 per cent today.

Renault and Volvo have formed a Purchasing Economic Interest Grouping headed by the French group's senior purchasing vice-president. Purchasing has been a key area for the early development of a joint strategy. Outside purchases of materials and components now account for about 60 per cent of the production cost of vehicles, not including tooling costs.

Renault and Volvo's car and light commercial vehicle divisions made total purchases of about FFr85bn in 1992.

They make purchases jointly for more than 30 families of products and materials. Unified purchasing functions have been created for each set of products, each headed by a Renault-Volvo executive purchaser. They issue international calls for bids and assess the capacity of suppliers to meet the product specifications of both groups.

Renault and Volvo Car have also formed an economic interest grouping for quality, headed by Renault's senior vice-president for quality.

Overall, a common product plan has been finalised for the next 10-12 years based on the principle of maintaining two distinct product lines and separate identities for both brand names, but with common platforms and components wherever possible.

The two companies have agreed on the common future use of engines, chassis, gearboxes, axle assemblies and other components. Renault has been given responsibility for developing diesel engines for the two groups and will supply Volvo with its future diesel engine. This year, a version of Volvo's latest petrol engine will be used to power a Renault vehicle.

Renault already supplies engines and gearboxes for the smaller Volvo 400 series which is built in the Netherlands by NedCar, the Volvo joint venture with Mitsubishi Motors of Japan. In 1991, some 93,500 Renault engines and 82,000 gearboxes were supplied for the Volvo 400. Renault will also supply engines and gearboxes for the successor vehicle to the Volvo 400 which is now under development in a collaboration led by Mitsubishi and which will be launched in 1995-96.

According to Renault, the cross-sourcing of engines with Volvo will involve about 100,000 engines a year in each direction.

The commercial operations of the two groups are also being more closely aligned around the world. In France, for example, the sales networks are still kept separate but there is collaboration in areas such as distribution of replacement parts, media buying and joint management of used-car inventories.

Renault distributes Volvo cars in Argentina and Slovenia, while Volvo distributes Renault cars in the Nordic countries, Australia, Malaysia and Thailand.

The development of the Renault-Volvo alliance towards a full merger had marked time in the run-up to last month's French elections, but it is now expected to gather pace. Mr Louis Schweitzer, Renault chairman and chief executive, is keen to keep up the speed of collaboration with Volvo, whatever pace is set by his shareholders.

"If you stop moving it is bad, you must keep up the momentum. The advantage of a complete merger is simplicity and speed. Agreement between two companies does not go as fast as managing a single group. I have a strong priority to strengthen the links as fast as I can," Mr Schweitzer said in an interview last year.

At present, Renault owns a 25 per cent stake in the Volvo car operations, a 45 per cent stake in the Volvo truck and bus operations, and a stake of close to 10 per cent in the Volvo parent company. Volvo holds a 20 per cent stake in the Renault parent company, which includes the Renault car and light commercial vehicle operations, and a 45 per cent stake in the Renault truck and bus subsidiary.

While Renault and Volvo have different shareholders there will always remain the *basic thorny problem of how* savings and profits – or losses – are to be apportioned between the two companies. Mr Schweitzer says, however, that "it is clear there is no way back. A single command structure would help make things go faster."

The influence in the alliance *has inevitably shifted towards* Renault as its finances have strengthened and Volvo's financial performance has weakened.

In 1992, Volvo ran up an operating loss of SKr2.25bn fol-*lowing an operating loss of* SKr1.17bn in 1991. It is being forced to reduce its car assembly capacity to cut the losses with closure of its two smaller Swedish assembly plants, Uddevalla this spring and Kalmar in mid-1994. Uddevalla only started production in 1987.

Including these closures, the group is cutting another 4,500 jobs, or 10 per cent of the overall group workforce including commercial vehicles and marine engines, by 1995. More than 11,000 employees, including consultants, have been cut *from the Volvo group work*-force since mid-1990, with 3,900 leaving during 1992.

It is also finally acting to simplify its product range. It stopped production of the Volvo 740 during 1992 and is finally dropping the venerable Volvo 240 this spring.

Volvo car sales have fallen from 405,600 in 1989 to 359,600 in 1990, then 309,300 in 1991 and 303,800 last year. The car operations have been in loss since 1990 and suffered an operating loss of SKr1.828bn last year *after an operating* loss of SKr1.776bn in 1991 and SKr855m in 1990.

The financial performance of the rival Saab car operations in Sweden has been equally devastating and the GM-led management is still struggling to staunch the losses.

Saab Automobile, which is owned 50 per cent by General Motors and 50 per cent by Saab-Scania with GM holding management control, is forecasting a "substantial improvement" in its results for 1993, but only after very heavy *losses over the past four years.*

The two shareholders are having to pump in a further SKr2.8bn in new funds this year to shore up Saab Automobile's battered balance sheet.

The company's loss, after financial items, rose again last year to SKr2.688bn from a loss of SKr2.242bn in 1991 and SKr3.25bn in 1990. In 1989, the Saab car division of Saab-Scania – before the GM rescue – made a loss of SKr2.13bn following a marginal profit of SKr11m in 1988. Car sales have fallen from 109,483 in 1989 to 93,224 in 1990, some 87,500 in 1991 and 86,800 last year.

The company was forced to launch another retrenchment programme late last year with the aim of reducing costs by SKr2bn a year and eliminating another 1,980 jobs, mainly from the parent company in Sweden, which employed close to 9,300 at the end of last year. The Saab car group had a workforce of 16,795 at the end of 1989.

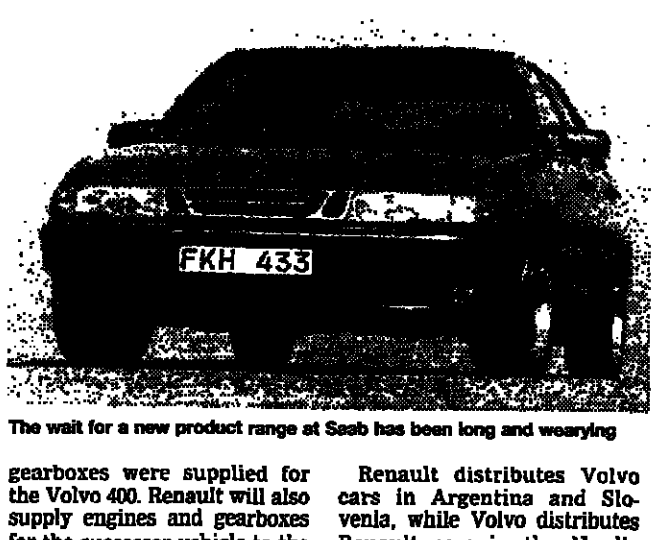
Productivity of 57 hours per car at the main Trollhättan plant is supposed to be improved to 45 hours per car by the end of 1993 and to 40 hours by mid-1994. Saab has made savings of about SKr1bn on the costs of purchased materials in the two years 1991-92, but it is now seeking to cut purchased materials costs by another SKr1bn in 1993-94.

As part of the cost-saving campaign, the co-operation between Saab and GM is being intensified and Saab is seeking to carry out development work on a contract basis for GM. The two companies are also establishing a two-way flow of components with Saab due to begin in 1993 supplying up to 65,000 gearboxes a year to GM Europe's Opel-Vauxhall operations, while it will take supplies of GM's V6 engine from Vauxhall's new £193m engine plant at Ellesmere Port in the UK.

The wait for a new product range at Saab has been long and wearying and the Saab 900 replacement due this summer – it has been derived in part from the Opel Vectra-Vauxhall Cavalier – can hardly come soon enough to try to revive its battered fortunes.

Kevin Done

The Volvo 850 could be replaced by the new joint car range, says Renault



The wait for a new product range at Saab has been long and wearying

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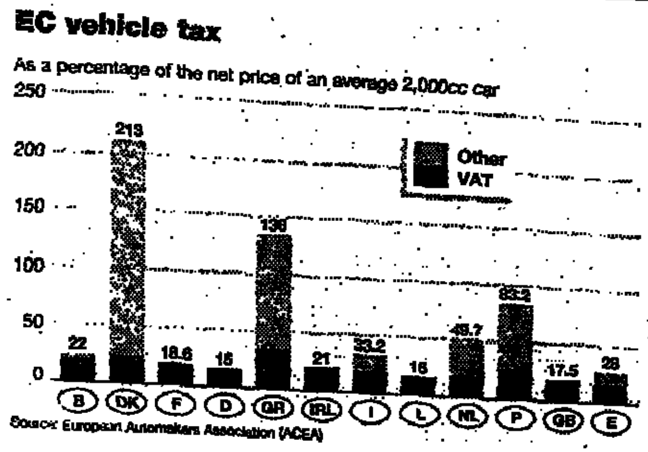


■ EC PRICING DEBATE

Manufacturers under scrutiny

THE investigation of carmakers' pricing policies across Europe is set to intensify over the next two years.

In mid-1995, the present 10-year "block exemption", which controversially allows car makers to use a selective dealer distribution system in contravention of European Community competition rules, is due to expire.

The industry has been given due warning by the EC competition directorate, that a renewal of the block exemption will depend importantly on car manufacturers' performance in conforming with EC limits on car price differentials across Europe.

The block exemption granted in 1985 was conditional in part on car prices between member states not differing by more than 12 per cent in the long-term or by more than 18 per cent for periods of less than a year.

A landmark will be reached later this month, when carmakers publish for the first time comparative EC price lists for selected new cars under a plan agreed with the European Commission.

Publication of the price lists is aimed at helping car buyers to shop for bargains across EC borders. The price lists, agreed while Sir Leon Brittan was still the EC competition commissioner, are aimed at increasing the pressure on manufacturers to bring car prices more into line throughout the EC and to make it more difficult for car dealers to discriminate against foreign buyers.

The information will contain prices for all EC member states except for Denmark and Greece which have been excluded because of their excessively high tax levels

The price lists, to be published twice a year, will contain the recommended retail prices, both including and excluding taxes, of one standard-equipment volume model in each segment of the car market.

The information will contain prices for all EC member states except for Denmark and Greece which have been excluded because of their excessively high tax levels.

The lists will include details on the most significant options such as air-conditioning, automatic gearbox, power steering and anti-lock braking systems, as well as for right-hand drive, and warranty conditions, delivery costs and roadside assistance.

The Commission's plan for the biannual publication of price lists is not legally binding but EC officials have indicated that if carmakers do not co-operate they will risk losing their jealously-guarded right to operate the selective distribution system.

Prices, published in May and November every year, will be shown both before and after tax, in Ecu and in local currency. The Commission dropped its original demand that manufacturers should supply information about all possible models and options on the grounds that it would be too time-consuming for manufacturers and confusing for consumers.

During 1992, the UK Monopolies and Mergers Commission and the European Commission both published reports on car prices in Europe. The reports failed to remove widespread confusion over price differences, but the EC report in particular drew attention to many specific cases where price differentials had exceeded the block exemption guidelines.

According to a survey published late last year by Beuc, the European consumers' organisation, the prices of certain new models can differ by more than 40 per cent between countries. Manufacturers point out that prices are mostly within the 12 per cent band recommended by the Commission.

The pricing debate has been widened beyond Europe by a report from Ludvigsen Associates, the UK-based automotive analysts, which claims that whatever the price differences within Europe, European car buyers in general are paying as much as 30 per cent more for new cars than consumers in the US and in Japan.

Ludvigsen Associates, which carried out the basic research for the MMC inquiry in the UK, claims that "the European car buyer is spending more than he should for personal transportation" both in absolute terms and in relation to household income.

The report was the first co-ordinated attempt to compare car prices between Europe and the other leading world markets, the US and Japan.

According to the study, the largest differences are with car prices in Japan. It claims that European car prices (net of tax) are 33 to 43 per cent higher than equivalent prices in Japan, while European prices are 15 to 45 per cent higher than in the US.

On average, it takes 27 weeks of gross family income for a European to buy a car, compared with 21 weeks in America and 15 weeks in Japan. The UK is at the European average, while the Germans, French and Belgians need four weeks less.

Much of the unrest over car prices has been generated in the UK, but some of the heat has been taken out of the debate by the uncomfortable combination of recession and last September's devaluation of the pound, which have contrived to bring UK prices much more into line with the rest of the EC.

A report published in March by Vauxhall, the UK subsidiary of General Motors of the US, claims that new car prices in the UK are now lower than in several other European markets.

The study, prepared by management consultants A. T. Kearney, renewed the motor industry's attack on earlier research undertaken by European consumer groups into pan-European car prices for failing to take into account many of the factors that influence car price variations across the European Community.

GM maintains that the price variations that do exist, can be attributed mainly to:

- Exchange rate variations of 15 per cent or more over a 12-month period;
- Discount variations of up to 10 per cent of list prices between countries;
- Equipment specification variations of up to 17 per cent between countries;
- Tax rate variations ranging from rates of 15 per cent up to 213 per cent; and
- Differences in finance benefits that can create list price variations of up to 11 per cent between countries.

Publication by Vauxhall of the new A. T. Kearney study was aimed at trying to head off action by the UK government to force car manufacturers to change some of the more controversial terms of their franchise agreements with dealers.

Carmakers in the UK have rebuffed the request made to them last year by the Office of Fair Trading to change some of the more restrictive terms of their franchise agreements. The changes had been recommended in a report published early last year by the MMC following its investigation into UK car prices.

The requested changes would, for example, allow a dealer to acquire competing dealerships within his existing territory. They would also remove limits on a dealer's freedom to advertise outside his territory, or to acquire dealerships from other carmakers outside his territory.

Carmakers operating in the UK have been reluctant to grant the changes sought by the OFT, however, in case such a move should undermine their position when the block exemption is renegotiated with the European Commission. Franchise agreements in some other EC countries are more restrictive than in the UK.

Kevin Done

■ INSURANCE

Higher premiums curb 'hot hatch' sales

A YEAR ago, insurance companies dropped a bombshell which wreaked havoc in the performance car market. A GTi was the car to be seen in during the prosperous late 1980s, but cheap power in the wrong hands led to an unprecedented spate of accident claims. The situation for insurers was exacerbated by car theft raging out of control.

By 1992, insurance companies had had enough and used the introduction of the Association of British Insurers' new 20-group insurance system to raise premiums for performance cars and introduce draconian restrictions in providing quotes for high-risk drivers and people living in high-risk areas. This, combined with recession, pushed sales of some performance cars into a nose-dive.

Particularly hard hit were the cheaper "hot hatch" cars. New car sales in this market almost halved in 1992, compared with 1991, mostly owing to prohibitive insurance costs. But sales of expensive performance cars have not suffered as badly.

People buying such cars as Ferraris, top-range Jaguars and Mazda RX-7s are older and prepared to pay the higher insurance premium.

Mr Robin Foster-Taylor, insurance broker of F Rauch, says the insurance companies are to blame for making performance car insurance too cheap and easily obtainable during the late 1980s. He says: "For several years, premiums were unrealistically low as insurance companies fought for market share. By charging low premiums, insurers encouraged people to buy performance cars and claims were intolerably high. Premiums charged now reflect the true cost of performance car insurance."

It costs between £2,500 and £3,000 with a full no-claims discount to comprehensively insure the Ford Sierra Cosworth, a favourite target for car thieves. But sales continue at a lower level as people find cheaper ways to get their performance kicks. Typically, on a Cosworth private buyers will fit an immobiliser and alarm and opt for third party insurance at £500 to £1,000. The biggest buyers are company car drivers whose insurance company will turn a blind eye to the occasional performance car slipped into a fleet policy of more than 30 cars.

What has happened, says Mr Foster-Taylor, is that the buyer profile has changed. "There are fewer inquiries from 21- to 24-year-olds and the buying age for performance cars has increased to 30- and 40-year-olds."

He adds that the worst is not over, as the cost of insurance has gone up enormously in the past 12 months, with three to four premium increases a year. "You're looking at premium increases of at least 15 per cent and in some cases some 30 to 40 per cent for GTis. Premiums will continue to affect the market for some time to come."

Yet the impact on sales is selective, with a clear distinction between affordable boy-racer-type cars and up-market performance cars. This is highlighted by the contrast between Mazda and Ford. Ford says its XR3i represented between 10 and 12 per cent of Escort sales. This has now been reduced to 5 per cent.

Porsche relaunched its own insurance which offers favourable rates to Porsche owners

Mazda claims its RX-7, an out-and-out sports car, has not been affected at all by insurance costs: "This car is sold in limited numbers and is bought as a conscious decision by buyers who are prepared to pay the extra premiums."

Peugeot's 205 GTi is another example of the cheaper hot hatch victim. The company says that GTis have fallen from 15 per cent of 205 sales to 8 per cent. "Increased premiums had a considerable impact on 205 GTi sales, but we expect the market will stabilise as manufactures take over some insurance," says Peugeot.

Porsche in Britain has seen profits fall hard, with sales of 944s dropping from 1,612 in 1991 to 945 in 1992, but the company says this is mostly as a result of the recession. "Premiums for our cars were high anyway, but we knew we were going to be hit badly with the 20-group system and prepared for it. As a result of premiums going up, we relaunched our own Porsche insurance which offers favourable rates to Porsche owners, with premiums set for three years. Many customers have taken this up," said a Porsche representative.

Volkswagen says its buyer profile has changed, particularly with its introduction of a V6 engine, to older people who want bigger car refinement but in a smaller car than a Mercedes-Benz or BMW. "GTi sales have fallen slightly, as people wait for the new 16-valve model, but there's been no noticeable reduction in sales of other performance cars such as the Corrado, Passat and Vento with 16-valve and V6 engines."

Audi also seems to have come through the insurance shake-up relatively unscathed. A representative says: "With our 80 range, we are selling as many 16-valves as diesels. The typical profile of an 80 buyer is professional, male, married, 35 to 39, household income of over £30,000 and more comfortable in terms of insurance.

"The Audi 100 buyer is more mature still, with most having built up no-claims discount. Being in a lower risk group means insurance is not such an issue." The company sold more than 100 of its 150mph S4 models last year and is launching an S2 performance version of the 80 estate.

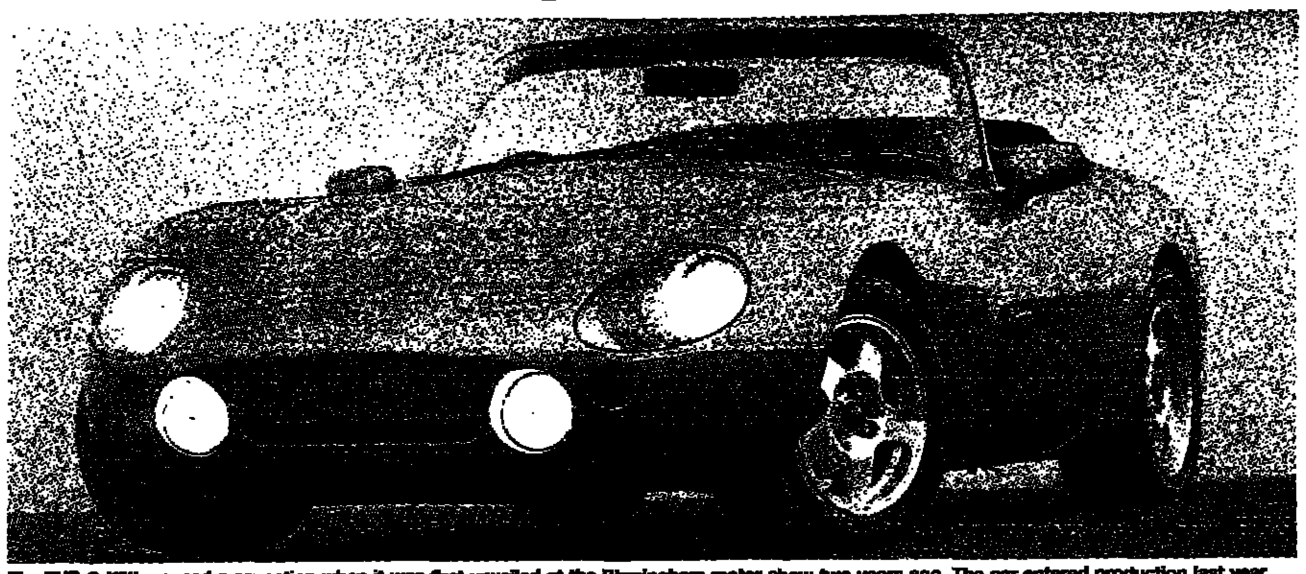
Many performance car manufactures are hitting back with "in-house" insurance schemes which guarantee a quote and deliver insurance as part of a complete sales package. The fitting of car alarms and immobilisers is widespread.

The makers are also considering refining their performance cars and making them less obviously sporty, in an attempt to regain lost sales. As a Ford representative points out, the market is far from dead: "The performance market has been reduced but it is still alive. It's just the way things are done that has to be a little different now."

Hugh Poulter

■ Alternatives: Sports Cars

Tax changes could help



The TVR Griffith caused a sensation when it was first unveiled at the Birmingham motor show two years ago. The car entered production last year

The UK's small but enthusiastic specialist car industry, and larger sports car makers such as Porsche, could be beneficiaries of changes to company car taxation in the UK.

This could happen in two ways:

● Firstly, as a result of the 8 per cent increase this year in the tax scale charges of the current system. This has led some analysts of the company car sector to conclude that many more employees will want to hand back their company cars in exchange for a cash alternative.

If they do, the chances are that – freed from the shackles of their companies' lists of "approved" cars – they will choose a greater variety of cars.

Some with no interest in cars and modest private mileage are likely to buy second-hand vehicles and use any cash saved for other purposes. Others, even if only a small minority, are likely to indulge perhaps a long-nurtured desire for a more off-beat car which no company finance director would ever have contemplated purchasing.

● Secondly, the new system of company car taxation scheduled for introduction next year, and based on a simple percentage of new cars' retail list prices, will make more attractive those sports cars – such as those of Blackpool-based TVR and lower-priced Porsches – which have tended to fall foul of either of the current system's two price thresholds of £19,250 and £29,000 above which the personal tax assessed rises sharply.

For TVR and other carmakers whose prices do not stray above about £40,000, the new system is unalloyed benefit. The problem is that the tax liability continues to rise in proportion to list price, with no ceiling set by the Inland Revenue.

On that basis, the tax bill on the more expensive Porsches, such as a £60,000-plus 911 or 928, for someone covering fewer than 2,500 business miles, becomes burdensome, as tax is levied on 35 per cent of the list price.

Even if the extra boost to demand is modest, it can have a big impact on UK specialist sports car manufacturers, which typically measure their output in hundreds rather than thousands of cars annually.

In the case of Malvern-based Morgan Motor Company, any rise in demand would be reflected in a lengthened waiting list – still several years' long – rather than a rise in output.

Morgan, which makes about 450, Thirties-style two seaters a year, is still quietly congratulating itself for having ignored 1989's on-camera advice of Sir John Harvey-Jones, former ICI chairman and TV "company doctor", to expand production.

Sir John wanted Morgan to make another 300 cars a year, halve the then 10-year waiting list and raise prices.

Three years and a collapsed UK car market later, profits are up and the cars seemingly remain as desirable as ever.

It is TVR, however, which has had the most dramatic change of fortunes, sending sales and production sharply upwards during a period when UK new car sales overall have slumped by about one quarter.

The company will celebrate its 40th birthday – although it has had several owners – next year as a manufacturer of high-performance sports cars which have won respect from a much wider audience than long-term TVR *afficionados*.

The change of fortune is all down to the Griffith, named after a 1960s TVR two-seater, which caused a sensation when first unveiled at the Birmingham motor show two years ago and which entered production last year.

Compared favourably in styling terms with manufacturers such as Ferrari, it has recently been joined by an equally well-acclaimed model, the Chimaera.

Last year, TVR's 200 employees produced a record 824 cars, up from 719 in 1991 and 300-400 annually through much of the 1980s.

Mr Peter Wheeler, who bought the company about 11 years ago, thinks annual output of 1,500 might eventually be feasible by a slow expansion of the workforce. But he makes clear that he intends TVR to proceed cautiously as it will not willingly contemplate any risk of later contraction and redundancies.

Rivals continue bemused by TVR's relatively cheap prices. The 160mph Griffith at launch was £26,000 and the new Chimaera also lists at less than £30,000. "We're not paying any money for marketing machinery", says Mr Wheeler. "With others, you're paying for the Le Mans reputation, not the car itself."

In the next few months, TVR is expected to bemuse rivals even more. The Griffith is to be re-launched using the first engine to be designed and manufactured by TVR "in-house", a V8 unit with a claimed 300-plus horsepower.

According to motor industry convention, it has become wildly uneconomic for any carmaker to design, develop and manufacture its own engines unless it can spread the cost of several hundred units a year. Mr Wheeler merely shrugs, points to TVR's expected £1m profit and suggests that the industry should wait and see.

There is new life, too, in one of the industry's proudest names, Aston Martin Lagonda, the maker of luxury sports cars taken over by Ford in 1987.

It caused a big stir at this year's Geneva motor show when it unveiled an all – new model, the DB7, intended to quadruple production to 800 cars a year in 1995.

At an expected UK price of "less than £80,000", it will still attract a hefty tax bill as a company car – but a lot less than the £135,000-£175,000 Virage and other models on which the existing Aston Martin range is based.

The DB7 is to be built not at the headquarters in Newport Pagnell, Buckinghamshire, but a factory at Bloxham, Oxfordshire, where the last of Jaguar's super-fast, £415,000 Jaguar (also owned by Ford) XJ220 coupes are being assembled.

The main design and development work on the DB7 has been contracted out to TWR (Design), part of the TWR group run by Mr Tom Walkinshaw based in Oxford. It develops and manufactures Jaguar's high-performance sports and racing cars.

A new company, Aston Martin Oxford, has been formed to operate the Bloxham facility in which TWR has taken a 25 per cent stake. The car's bodies are to be supplied by Motor Panels, the Coventry-based components group. It is Motor Panels, now part of Mayflower Corporation, which holds the key to potentially one of the most significant developments in the UK sports car industry for more than a decade.

Mayflower is planning to invest up to £24.2m in a collaborative venture with Rover to develop and produce a new range of MG sports cars.

Neither Rover, the motor vehicle subsidiary of British Aerospace, nor Mayflower will officially confirm the project's existence. However, Mayflower acknowledges that it is in an advanced stage of negotiation for a contract to design, develop and supply the bodyshell for "a new specialist vehicle for European markets".

Rover, while denying that any final decision has been made on a new MG, admits it has been exploring "possible relationships which might be relevant".

It is understood that a final decision will be taken shortly on the project, code-named PR3, with bodyshell production likely to start in early 1995 and output of the new MG reaching 15,000 to 20,000 a year.

The car is expected to be mid-engined and powered at the top end of the range by Rover's K-Series engine in a new 1.6-litre version which is presently under development.

Meanwhile, interest in the MG marque is being rekindled by the launch this month of the MG RV8, a £26,000 roadster based on the MGB, which ceased production when the Abingdon MG factory closed in 1980.

John Griffiths

■ Alternatives: Four-Wheel Drive

Love affair continues

DESPITE three years of recession, the British motorist's love affair with four-wheel drive continues.

Last year, 39,230 on-off road 4x4s were registered, which was 2.46 per cent of the market and a volume increase of 37 per cent on 1991, when 28,674 were sold.

Children are taken to school, secretaries go to their offices and businessmen travel to meetings in rugged, high-slung Range Rovers and Land Rover Discoveries, Mitsubishi Shoguns and Isuzu Troopers.

Some, but not many, are even driven off the tarmac now and again, fulfilling the function for which they were designed.

What is so attractive about on-off road vehicles in which the engine's power is put on the road permanently or occasionally through four wheels, not two?

The question defies logical answer.

Family cars never spin their drive wheels on dry roads. But they may do on wet ones. In a wintry spell, sheer lack of grip can bring any car to a stop.

Four-wheel drive halves the amount of power each drive wheel tyre has to transmit – which in turn halves the probability of the tyre losing grip and spinning. So a car with four driven wheels is four times more likely to keep moving and behave itself on slippery surfaces than one with only front- or rear-wheel drive.

In cars with a lot of surplus power, four-wheel drive has a wonderfully calming effect. There is a strong case to be made for it on safety grounds alone.

But, curiously, sales of purely road-going four-wheel-drive cars have not lived up to the high hopes expressed when the original Audi Quattro turbo-coupe startled the motoring world with its sheer driveability in 1980.

It is the on-off road 4x4 vehicle, descended in concept from the Jeep of the Second World War, that the public clamours to drive.

All have two-range manual transmissions giving 10 forward ratios, or eight when automatic.

The paradox is that many – some would say most – owners or users have no idea how to drive them off-road or have any need of all their heavy and costly mechanical complication.

The makers know there is a strong streak of fantasising and wish fulfilment in on-off road 4x4 purchase.

Executives sitting up high in 10-geared Discoveries or Shoguns may justify their choice on safety grounds – "It feels so strong" – or convenience: "I must be able to get to the station when it snows".

More practically, they may find the vehicles handy at the weekend for pulling horse-boxes, dragging boats up slipways or filling with children and dogs. Young men and women, forced into giving up hot hatchbacks by punitive insurance rates, turn to 4x4s as macho substitutes with an agreeable hint of a Barbour jacket, breeches and Purdeys lifestyle.

The rough, tough four-wheel drive you cleaned inside and out – if you ever cleaned it at all – with a high-pressure hosepipe is a threatened species.

Survivors are the Land Rover Defender, consisting essentially of Discovery mechanicals and an austerely equipped body, and the cart-sprung Daihatsu Fourtrak and Jeep Wrangler.

Britain's best-selling 4x4 by far is the highly successful Land Rover Discovery which is really a Range Rover wearing trendier clothes. The petrol V8 is very thirsty; the great majority sold are diesels, powered by an unrefined but frugal 2.5-litre direct injection engine that rewards light-footed drivers with more than 32mpg (8.83 l/100km).

The 22-year-old Range Rover, which is beginning to look dated, has been eclipsed by Discovery. It does everything the poshest Range Rover Vogue can do at not much more than half the price. Main foreign competitors of the Range Rover and Discovery are the Mitsubishi Shogun, Isuzu Trooper and Toyota Land Cruiser.

Other full-size on-off road 4x4s used as substitutes for conventional executive-class saloons or estate cars include the Mercedes-Benz Gelandewagen and Nissan Patrol and, since the beginning of this year, Chrysler Jeep Cherokee.

Although the dollar has hardened considerably against sterling since Cherokee import prices were announced last autumn, it has few rivals as a value-for-money package. About £20,000 buys a 4-litre, leather-trimmed, air-conditioned Cherokee automatic with cruise control, power windows, alloy wheels and ABS brakes.

It can be used on the road in two-wheel or four-wheel drive. Being very high geared – 30mph at 1,000rpm – it is quiet and economical – about 20mpg on a motorway – and handles more like a high-slung Volvo estate than an on-off road vehicle.

Two interesting newcomers about to go on sale in Britain are the Spanish-built Nissan Terrano II and its Ford-badged clone, the Maverick.

Nissan knows exactly what kind of market the Terrano II will sell in. It describes it as a competent performer on the rough stuff but says it is mainly intended to offer the same level of comfort and refinement as a modern passenger car. There are three-door and five-door estate versions with 2.7-litre turbo-diesel or 2.4-litre petrol engines.

Stuart Marshall

■ Alternatives: Multi-Purpose Vehicles

New examples on the way

Government ministers may have been banned from using the expression "green shoots of recovery" and Mr Ian McAllister, Ford's chairman, would only hint recently about "a stirring of the soil" but motor industry executives are confident that at least one area of the business is heading for substantial growth in the UK and continental Europe: the MPV or multi-purpose vehicle.

This is partly because people are looking for alternatives now that high performance and sporty cars have been driven out of reach by soaring insurance rates; partly because once the space, flexibility and comfort of an MPV has been enjoyed, it becomes difficult to revert to a normal vehicle. But mostly it is because of the number of new examples about to reach British showrooms.

The current market leader, by a comfortable margin, is the Renault Espace, introduced in 1984 and which in 1992 took 41 per cent of the UK market. The "one box" format, which allows seven seats and lots of space in a vehicle the length of a medium saloon was so innovative that it is surprising it has taken the rest of the industry so long to catch up.

Already Nissan, Mitsubishi and Toyota have launched competitors with the Serena, Space Cruiser and Previa respectively, but next year will see a joint-venture MPV from Volkswagen and Ford and a second joint venture from Fiat Group and PSA which will certainly see the launch of a Fiat, Lancia and Peugeot MPV and possibly a Citroën version too.

Last year the Renault Espace accounted for 3,221 of the 7,851 MPVs sold in Britain. This year, Renault expects to sell 4,800 examples in a total market it believes will expand to between 9,000 and 10,000 units.

"Our strategy is to achieve a 50 per cent market share now before the market finally starts to take off as competitor cars reach the showrooms and to retain that leading market share by confirming the Espace as the benchmark or generic model in the sector", says Mr Phil Horton, director of communications.

Two variants – a turbo-diesel and an automatic V6 – are available to encourage even more potential Espace buyers, and the company is advertising the model on television for the first time in the UK to reinforce the message.

"The Turbo-diesel is already accounting for 35 per cent of customer orders and the automatic V6 provides the right product for buyers in the £25,000-plus executive sector", says Mr Horton, who also promises special editions for the summer to boost sales.

Nissan's manager of marketing and planning, Mr David Archibold, is even more bullish than Renault about the prospects for the MPV sector.

"We expect it to be a fairly stable market in 1993 with perhaps a modest increase, but next year sales should reach 20,000 units, up 50 per cent, because of all the new products coming onto the market", he says.

"We also expect the market to increase by a further 50 per cent in 1995 in Europe. On the continent, the market is forecast to increase even further than in the UK, but that increase won't happen overnight here because this is a more conservative market. But there is no doubt of the increase in interest in the sector".

Nissan introduced its new Serena last year. Most buyers were previously estate car drivers, according to Mr Archibold. Those same estate car buyers seeking yet more interior space have been identified by Volkswagen as the people most likely to move into the MPV sector.

At last year's motor show, VW displayed its Caravelle model on the cars stand for the first time. While the van-based Caravelle is rather larger than most MPVs and very much at the top end of the segment, Volkswagen, like Nissan, found that most of those showing an interest were already estate car drivers, many with larger families unhappy at carrying children without proper seat belts.

"The Caravelle, with its seven or eight seats, all with belts, fulfils a need," said Volkswagen, although it acknowledged that the Caravelle model was very much a niche product. The company's model in the central MPV sector comes next year, jointly developed with Ford.

The other imminent joint venture, between Fiat and PSA, is interesting because of the decision to have an upmarket Lancia version as well as the standard Fiat derivative. This indicates that Fiat executives reckon there is room for an executive version, which will offer all the comforts and luxuries of a top-line saloon with the space and flexibility of an MPV.

Mercedes-Benz planners have the same thought and showed a concept of an MPV at Frankfurt. However there is no word on whether the project has been given the go-ahead.

Unlikely to reach production is Giugiaro's stunning concept for a mobile office, shown at Geneva. The Columbus, with its seven seats, four-wheel drive and outlandish styling, may never be built, although the idea of being able to work on the move interests several manufacturers and specialists.

Ford has its Granada Office Car, equipped with fax and telephone, and also offers an Executive Transit van – essentially a luxury mini-coach for groups of businessmen.

Others have also prepared similar concepts including Chrysler, based upon the Voyager MPV. But to date executives have been unwilling to pay for the privilege of being able to work and be in constant touch both inside and outside the office.

For the time being, the growth area is the straightforward MPV – part car, part people carrier, and part lifestyle accessory.

Renault's inspired initial design looks set to lead one of the motor industry's few bright sectors over the next few years, and the company is not concerned at the way others are cashing in on its idea.

Martin Derrick

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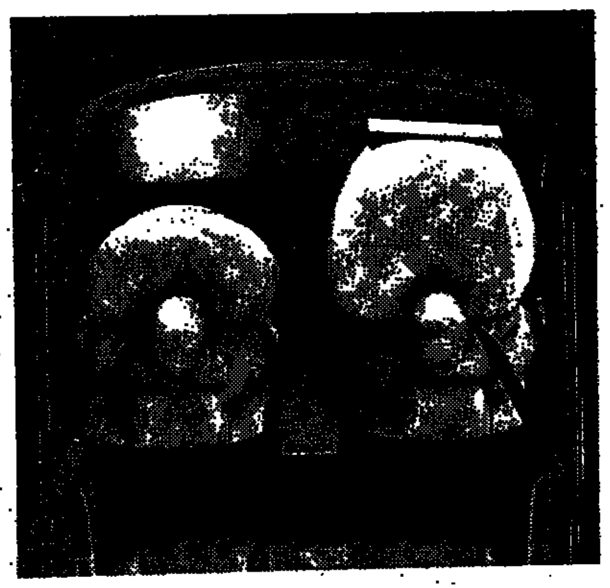
All luxury cars have a passenger seat in the front. But Lexus realises it may *carry a passenger.*



Most luxury cars fit an air bag for the driver and leave the passenger's air bag as an optional extra. But you'll find the Lexus LS400 is fitted with both. In fact, you'll find the Lexus LS400 is unlike most luxury cars in most respects. Hardly surprising perhaps, when you realise that we designed it from scratch and had to apply for hundreds of new patents.

Needless to say, we didn't hold back on the kind of refinements which enhance the pleasure of travelling in a Lexus. But nor did we cut any corners when it came to the kind of refinements we hope you'll never need. The air bag for the passenger as well as for the driver is just one example. The LS400 has seat belts which don't just lock in a collision but actively pull you back towards your seat. The car is built around a solid steel safety cage, and the doors are reinforced with high tensile steel side impact beams. The chassis is a blend of alloys, laser welded and stamped into rigid sections. The body sections at the front and rear have been designed to 'give' progressively during impact. They were developed first through a form of super-computer simulation called 'finite element analysis.' And then, rather less theoretically, by driving a generous number of the 450 prototypes we built during the development of the LS400, straight into solid walls.

If you need to put your foot down hard on the brakes in the LS400 there's the reassurance of ABS. By contrast if you need to put your foot down hard on the accelerator to get out of danger instead, you have the safety of power under the bonnet. A 4.0 litre V8 engine.

And so the long, comforting list of safety measures goes on. Adding to the pleasure of travelling in a Lexus simply through knowing they're there.

Visit a Lexus dealer for the whole LS400 driving experience. But may we suggest you bring along someone for the passenger experience too?

LEXUS
THE LUXURY DIVISION OF TOYOTA

■ HOW THEY GO

Lure of the feel-good factor

THE simple answer to the question 'How do the latest cars go?' is: at least as well as cars of twice their price 15 years ago.

Giant strides have been made in improving the refinement and ride comfort, safety and sheer easy driveability of the medium-sized and medium-priced car. So much so that the executive car costing less than £20,000 is now so good that company car users demanding better must be more concerned with status than with the practicalities of business motoring.

It is no exaggeration to say that today's superminis such as the Nissan Micra and Vauxhall Corsa are the equal of yesterday's small-medium cars in everything but bulk. Much the same comment applies to the small-medium cars – such as the Rover 200-400, Ford Escort-Orion, Citroën ZX-Peugeot 306 and Vauxhall Astra – and the modestly-priced larger models from the high-volume producers, such as the Citroën Xantia, Ford Mondeo, Nissan Primera, Peugeot 405, Rover 600, Toyota Carina E and Vauxhall Cavalier.

In fact, the latest crop of new models is so good one almost has to nit-pick to find fault. It is true that the Mondeo's ride deteriorates slightly as one moves up range and the tyres become wider and squatter – but the upside is handling and cornering of a standard confined to high-performing sports cars not long ago.

The performance, refinement and comfort of cars in the size and price classes of the Mondeo must inevitably encourage some user-choosers to trade down and reduce the tax man's take. For example, the latest Vauxhall Cavalier automatic with a 2.5-litre, V6 engine, or a two-pedal Rover 623GSi, both way below a £20,000 list price, would probably please any Senator or 820i user untroubled by loss of perceived status.

The slow but inexorable move towards diesels in company fleets – and pressure on executives to follow suit – need bring no loss of motoring enjoyment. The latest turbo-charged and intercooled diesel cars such as the Audi 80 and 100, Rover 825, Citroën XM and Peugeot 605 – not to mention the BMWs due here in the very near future – are light years away from the sluggish diesels of the 1970s and early 1980s.

Although they are still more noisy at start-up than petrol cars, they cruise on motorways in near silence, have lively acceleration and need tanking up at much greater intervals.

Although the forthcoming abandonment of the over-1,999cc tax barrier on company cars removes some of their *raison d'être*, the just-under-2-litre petrol engine with a turbo-charger can provide the executive car user with the best of both worlds.

Driven gently with an eye on the boost gauge, they offer 2-litre economy. Potential 3-litre performance (and, of course, fuel consumption) is there when required. Sensitive drivers, though, exploit the turbo-charged engine's massive low-speed torque by staying in a high gear for overtaking and hill climbing instead of changing down, which benefits economy. Good examples of these "split personality" cars are the Citroën XM, Lancia Thema and Saab 9000.

But however good the under-£20,000 cars are, there are always user-choosers whose companies are prepared to pay more and who are themselves willing to find the extra income tax. Only in the highest reaches of the premium quality and luxury car market does the tax burden become oppressive.

It can, in fact, be argued that lower rates of depreciation affect the total motoring costs so much that, a Mercedes 190E, for example, is a better financial bet, long term, than an apparently cheaper car. Its successor, the keenly awaited C-class, seems likely to be as much a benchmark car as the 190 has been for over 10 years.

For some people, a BMW, Jaguar or Mercedes-Benz has a "feel good" factor which is more easily recognised than described. My personal pick of this top-quality crop would be a BMW 5-Series or 7-Series with a 3-litre or 4-litre V8 engine and 5-speed automatic; a Jaguar XJ6 3.2-litre or 4-litre; or a Mercedes-Benz 320E. The only other saloon of comparable price that equals – and in some respects exceeds – their standards of performance and refinement is that bogeyman of the European luxury car maker, the superlative Toyota Lexus LS400.

Stuart Marshall

The Lexus LS400: Japan's bogeyman equals and sometimes exceeds the standards of European luxury cars

■ NEW TECHNOLOGY

Designers exercised

The minds of executive car designers are being exercised in new ways as they look towards the future. It is no longer sufficient merely to extrapolate the fashionable trend of appearance, to improve performance, specification and cabin space. Contrary forces are beginning to appear in three important areas.

It could be argued that the current Mercedes S-class spelled an end to the conventional approach when it appeared at Geneva in 1991. The world admired it as a technical achievement, but wondered if it should – given concerns about the relationship between conspicuous consumption and the environment – be quite so large and heavy.

Mercedes mounted a stout defence based on the car's unparalleled safety and on its scrupulous attention to environmental detail, but company executives privately admitted that if the S-class design had been "frozen" later, the car would indeed have been smaller.

If not reversed, the trend had been interrupted. It could no longer be taken for granted that any new executive car would be bigger and heavier than the model it replaced.

A similar anxiety has arisen in the matter of appearance. Customers have begun to mutter that many of the latest models look confusingly the same, mainly because of the influence of aerodynamics on design. Some manufacturers, notably Rover with its highly successful 800-series "facelift", have abandoned the ultimate saving of drag coefficient in favour of a more distinctive front-end appearance. Individuality has become important.

The third backlash has been in the area of specification. The 1980s was the decade of making anything that moved power-operated, and of exploiting the driver's susceptibility to "technology" by granting him control of systems whose operation had previously been taken for granted: the shift pattern mode of the automatic transmission, the settings of the suspension damping, the information shown on the trip computer display.

Executive car instrument panels and centre consoles began to resemble airliner cockpits – at a time when, as it happened, airliner cockpits were beginning to look much simpler in the interests of reduced crew workload.

Now the word is filtering back to the car manufacturers that customers may actually resent the fitting of features which are never used once the first flush of experimentation has passed. The new emphasis is on improving specification in a way which is "transparent" – the new buzzword – to the driver. Comfort, active safety and driving pleasure must be improved, but the car must perform all the necessary actions without the driver being aware of them.

Such changes of attitude seem likely to be accommodated by a combination of new materials, new technologies and fundamentally new design approaches.

To reverse the escalating trend of size and weight, engineers are looking to lighter materials, principally aluminium, and to subtle changes in the shape of the car itself. New shapes will also bring new opportunities for re-establishing individual marque identities.

The need for technical "transparency" will be met by new electronic concepts such as "fuzzy logic" which will enable systems to adapt themselves to users and their needs without the user ever being aware of anything happening.

Audi is likely to be the first to introduce a new model making substantial use of aluminium, later this year. Others will follow by the end of 1995.

The need to reduce size as well as weight is more difficult to achieve. People continue to grow larger and therefore to need more cabin space. Car designers increasingly look to provide the maximum cabin space in the minimum road area. This is most easily done by making the car taller and sitting the occupants more upright. Such an approach brings incidental advantages such as better driver visibility and easier entry and exit, but is difficult to square with the consistent fashion trend of recent decades towards longer, lower cars.

Most designers hope the evident need for a new approach will encourage customers to look at cars in a less conservative way but a debate is bound to rage around the relative merits of retaining a conventional but taller shape, or moving closer to the multi-purpose vehicle (MPV) concept pioneered by designs such as the Renault Espace and Mitsubishi Space Wagon.

Whichever approach is most widely adopted, designers will certainly try to avoid that uniformity of overall design which resulted from over-emphasis on low aerodynamic drag during the 1980s.

The influence of electronics on the design and operation of in-car systems will continue to increase, but with the emphasis shifting from the control of engine and transmission to the management of all aspects of comfort. Engineers now expect electronic systems to play an important part in achieving a smooth, quiet and vibration-free ride.

Developments in this area include noise-cancelling technology of the kind demonstrated by Lotus Engineering, and much more sophisticated control of suspension movement – and possibly also of seat spring characteristics.

Many of these developments will make use of the technology which its Japanese pioneers sadly misnamed "fuzzy logic". There is no real element of chance in this approach, which actually implies the ability to learn from experience and thus to adapt.

A fuzzy-logic automatic transmission, for example, may decide after a couple of apparently pointless down-shifts that it will henceforth remain in the higher gear in that particular situation. The technique has already been applied in other comfort-related areas of the car, most notably in the control of air conditioning.

In summary, the executive car of 2003 is likely to be roomier and more comfortable, yet lighter, more economical, and more compact at least in terms of road space occupied. It will also, crucially in the eyes of some marketing men, be much easier to tell one make of executive car from another; the magic of marque is about to be rediscovered.

Jeff Daniels

Carmakers ponder the unthinkable

Continued from Page 1

troubles of the German industry. *It fell into loss in this* year's first quarter and slashed production by more than 40 per cent *in order to reduce its* backlog of unsold vehicles. Total sales in the period were down by about one third. Volkswagen, which includes also SEAT of Spain and Skoda of Czechoslovakia, made a net *loss of DM1.25bn* (£515m) in its most recent quarter.

However, with costs being cut extensively – about 12 per cent of the 37,000 workforce is expected to go by the end of this year – Mr Piëch maintains that Audi should be profitable for the year as a whole.

The effects of achieving this goal are likely to be felt throughout Germany's extensive motor components supply industry. Suppliers are being asked to cut their prices by 5 per cent on average this year, with cuts of up to 10 per cent being required in some cases.

German suppliers, who contribute about 90 per cent of Audi's parts, do not only face *price cuts, however. They are* also exposed to loss of business as a matter of policy by Audi, which is embarking on a programme of global component sourcing to help it escape German manufacturing costs.

Helping it along the way is the group's new purchasing director, Mr Ignacio Lopez de Arriortua, *former head of purchasing at General Motors, who revolutionised GM* Europe's supply chain to give it the most competitive purchasing cost base of any European producer – and who was doing the same thing for GM in North America when he was poached by VW after a bizarre tug-of-war between the two big manufacturers.

But Audi's subdued outlook is of the kind that Porsche *might envy. Riven by management* disputes last year which saw the departure of Mr Arno Bohn, chief executive, Porsche plunged into a DM120m loss in the first half of its financial year and has warned that sales and profits will be down significantly for the full year ending July.

It is a measure of the extent of Porsche's decline that this *year it expects to produce only* 15,000-17,000 cars, less than one third of its mid-1980s levels. Mr Wendelin Wiedeking, appointed chief executive in September, insists, however, that new models due to be launched over the next two years will see demand for its products back up to 30,000-plus *a year from 1996 onwards.*

He also maintains that widely-expressed doubts about whether Porsche can retain its independence are unjustified.

He has a point: Porsche is privately owned by two extremely wealthy families, the Porsches and the Piëchs, and the company was debt-free and harbouring net cash of DM600m at last financial year's end. It can soldier on for several more years yet, either to a new model-led revival or until the families feel the competitive pressures are such that the game is no longer worth the candle.

Not only the German industry is suffering. Saab, the Swedish car maker jointly owned by Saab-Scania and General Motors, is receiving its second capital injection in two *years against a background of* four years of consecutive losses. Its fate will depend heavily on the successor to its 900 model, to be launched later this year. Saab-Scania has hinted that it will be reluctant *to provide further finance.*

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FINANCIAL TIMES SURVEY

EUROPEAN OFFSHORE CENTRES

SECTION IV

Friday April 30 1993

The success of offshore centres has been their ability to provide financial services that offer generous tax advantages. But the older centres now face competition from ambitious new rivals eager to attract their traditonal clients. **Norma Cohen** reports

Exploiting the differences

IN SPITE of the increasing harmonisation between European states, there is still much scope for the financial services industry to capitalise on differences in tax and regulation.

The march towards synchronisation of regulation has given additional impetus to businesses seeking a more liberal environment. Moreover, the lack of a standard tax structure has allowed some European states to export their more favourable laws to other parts of Europe.

"Offshore centres fall into three main camps," said Mr Robert Ash, vice-president in charge of marketing offshore centres products for Chase Investment Bank. "First, there are the well-regulated onshore centres of Luxembourg and Dublin. Second, there are the offshore specialist markets which provide particular products. Then there are the unregulated markets of the Caribbean which cater for the sophisticated investor who is not concerned about risk."

But the unspoken charm of offshore centres, particularly for the various sectors of the financial services industry which have made them their home, lies in the tax advantages which providers can attach to products originating there. That has been the secret of their attraction for decades and is likely to remain so for some time to come.

The success of Luxembourg in establishing itself as the offshore centre for retail investment products sold into Europe – or of the Channel Islands, for similar products sold into the UK – has not escaped the notice of other centres and competition for similar business has become fierce.

The question is whether the newer centres, with their liberal tax regimes and obliging regulatory bodies eager to cut bureaucratic red tape, can successfully challenge the dominance of the older centres.

By all accounts, Dublin has done a creditable job of establishing itself as an alternative to Luxembourg, with its relatively higher costs, as an offshore centre for retail investment products. The investment bank of Singer and Friedlander, for instance, recently recruited the highly successful unit trust division of Morgan Grenfell with the idea of basing a new division in Dublin, which would market Ucits (Undertakings for Collective Investment in Transferable Securities) in Europe. Japanese and other European banks have recently been selecting Dublin in preference to Luxembourg, although Luxembourg is continuing to grow.

GT Management has also just shifted six of its unit trusts to Dublin, intending to market them as pan-European Ucits. The ability of Dublin to attract business which would once have headed for Luxembourg demonstrates the vulnerability of offshore centres to determined rivals.

Still, Luxembourg has signalled its determination to hang on to its status as the offshore centre in the heart of Europe. It has moved to strengthen its bank regulatory structures in the aftermath of the collapse of the Bank for Commerce and Credit International, in an effort to buttress its reputation as Europe's banking sector. Among other things, it has put in place a compensation scheme covering the first LFr500,000 in deposits.

It also has put in place a fiscal regime for the sale of pan-European life insurance and pensions products which rivals that available anywhere else on the Continent.

And its financial regulatory body, the IML, has moved swiftly to cut the red tape associated with the establishment of new offshore funds, so that it now takes no more than four weeks to launch a new product – down from six months three years ago. Also, approved investment vehicles now include the latest innovations in derivatives, real estate funds, and so-called "funds of funds" which allow diversification of investment.

However, the attraction of an offshore centre in the heart of the EC could well be undermined by moves to standardise tax regimes. The Belgians, who will take over the chairmanship of the EC in June, have said they wish to place the issue of minimum withholding taxes back on the agenda. While Luxembourg successfully fought off the issue several years ago, the move would certainly remove some of the relative attractions of Luxembourg-based retail investment products which do not require withholding tax on interest and dividend payments to non-residents.

Meanwhile, the Channel Islands, which have noted the defection of some of their offshore products to Luxembourg and Dublin, have moved with considerable energy to replace lost funds with wholesale deposits from investors in places such as Japan who want access to UK investment opportunities but wish to remain outside its tax structure.

Also, a series of financial scandals since the late 1980s has forced a rethink about the liberal regulatory regimes which once characterised some offshore centres. Gibraltar and the Isle of Man have both been badly hit by the collapse of financial institutions based there in the 1980s and both have moved to put effective investor compensation schemes and regulatory structures in place. Jersey and Guernsey have enacted some of the world's toughest money laundering rules for banks based there, and tiny Liechtenstein is taking a hard look at its own secretive trust system.

Liechtenstein has come under scrutiny from British MPs since it became known that the late Robert Maxwell had used a series of secretive trusts based there to carry out transactions using funds stolen from pension schemes he controlled.

Meanwhile, the Caribbean has raised its profile as an offshore centre for European businesses, building on its strengths as the home of the captive insurance industry for American companies.

But Bermuda, with its well-entrenched regulatory framework and networks of insurance experts, is now also attracting the captive insurance subsidiaries of European companies. Among the island's biggest European captives are Grand Metropolitan, Hanson Group and British Airways. Because the infrastructure is already in place, European companies are finding Bermuda more attractive as a home for captive insurance subsidiaries than offshore centres closer to home, such as Gibraltar or Dublin.

Meanwhile, Bermuda is also attracting a portion of the reinsurance market which would once have been based at Lloyd's of London. Late last year, Britain's Commercial Union insurance company joined a number of US-based investors to form a company to reinsure risks underwritten in London.

Bermuda is also taking advantage of the interest of European financial companies to expand its own mutual fund business. A new trust law which allows a limited number of overseas companies to manage Bermuda-based trust companies has been used to run mutual funds aimed at wealthy private clients.

The message from the newer offshore centres is that the traditional hubs of business face continual competition from hungry and ambitious rivals eager to draw away their traditional clients. The question is whether the established offshore centres are up to the challenge.

LUXEMBOURG

Cross-border launching pad

NESTLING between Germanic and Latin Europe is Luxembourg, the tiny country whose liberal tax and regulatory regime has made it the centre of choice for companies marketing investment products.

"If Luxembourg's status was not available within the European Community, somebody from outside the EC would invent it," said Mr Mike Hemming, marketing director at Commercial Union Financial Management International.

Forget tax, Mr Hemming said. Luxembourg's charm is its proximity to central Europe, its reputation for Swiss-like banking secrecy laws, its multilingual, multicultural workforce and the sway it holds in the minds of the sort of European investors that CU hopes to persuade to buy its products. CU offers two so-called "umbrella funds", totalling £150m in assets, which are based in Luxembourg and marketed throughout Europe.

"Most mainland Europeans would recognise Luxembourg as a European banking centre. They wouldn't recognise Dublin," he said, referring to Luxembourg's nascent rival in the north-west corner of the European map.

Moreover, in spite of the high quality and low cost of Dublin's workforce, "we decided we needed a multilingual workforce who could talk to our series of distribution outlets throughout Europe," Mr Hemming said.

And in spite of its reputation as a high-cost location with red tape to be cut, competition from other offshore centres has failed to dent Luxembourg's popularity as the centre from which European cross-border products are launched. Moreover, Luxembourg has moved to cement its role as the centre for European financial services by developing a fiscal regime for the sale of life insurance and pensions products which rivals any other offered within the EC.

Luxembourg's greatest strength has been its historical role as the centre for retail investment funds which have been marketed as pan-European products. From the late 70s to the end of the 80s Luxembourg funds have posted annual growth rates of 12 to 60 per cent. The greatest spurt came from the 1983 law establishing the SICAV (an open-ended fund similar to a unit trust) as the capital investment company which offered collective investment opportunities.

By October 1992, there were 2,248 such schemes with assets totalling LFr6,016bn. That corresponds with 70 schemes with assets of LFr118bn in 1980.

Investment professionals caution against viewing Luxembourg as a low-tax regime. Indeed, quite the opposite. Unlike any other European centre, funds carry an annual six basis point *tax d'abonnement* which does not exist in any other country. However, Luxembourg does allow non-domestic investors to be paid interest and dividends gross of withholding tax, making it the logical home not only for investment trust-type products but also myriad other investments such as Eurobonds which appeal to the proverbial "Belgian dentist" seeking to avoid tax in his home market.

Still, Luxembourg's pre-eminent position in the sale of European financial services is not unassailable. For one thing, according to Mr Bob Ash, vice-president at Chase Investment Bank who oversees the marketing of offshore centres products, "service providers in Luxembourg are expensive". One regulatory quirk which has stuck in the craw of those who market collective investment schemes has been the requirement to use a Luxembourg bank – not the Luxembourg-based branch of another European bank – as a depository. This limits the choice to roughly three providers and the lack of competition has quite understandably affected fees.

Britain's Unit Trust Association and other similar European trade associations have successfully lobbied for changes to the so-called Ucits legislation which governs cross-border collective investment products. The changes will force local governments to allow the choice of depository to be a branch of any EC-based bank, and should result in lower costs.

Also, Mr Ash said, staff costs are relatively high in Luxembourg. "We have been able to expand our staff in Dublin by about 30 people over the past year at no problem," he said. Well qualified staff are available at affordable salaries, another factor when considering where to base the European centre for the sale of cross-border products.

However, Luxembourg's regulatory authorities, the IML, have been sensitive to the rising competition from other offshore European centres. "They have started to cut a lot of the red tape," Mr Ash said. "In 1990, the approval queue was up to six months," Mr Ash said. "Now, depending on complexity, you can receive approval in under four weeks," he said.

Moreover, the IML has shown its willingness to allow for innovation in product design for collective investment vehicles, a factor which is likely to help Luxembourg compete. Among the recent innovations given the green light by the IML within the past year are the use of derivatives, the creation of real estate investment funds, corporate finance funds and the so-called fund of funds which purchases shares of other collective investment vehicles.

Norma Cohen

SWITZERLAND

Most popular refuge for funds

ON A literal definition, Switzerland is the biggest offshore financial centre in the world.

Various estimates indicate that something between one third and one half of all funds placed by investors outside their home countries are in the hands of Swiss banks.

That amounts to roughly SFr2,000bn, and puts the country far ahead of places such as Jersey or Gibraltar as a refuge for funds. But the term offshore, as most people have come to understand it, is increasingly misleading when applied to Switzerland.

With the exception of the canton of Zug, the country cannot be described as a tax haven. Its tax levels are not remarkably different from those in other industrialised countries, and foreigners must pay either normal taxes on their earnings from investments in Switzerland or forfeit a stiff 35 per cent withholding tax.

Nor is bank secrecy sacrosanct in Switzerland. Contrary to a widespread perception, Switzerland has never guaranteed to protect criminals' money from foreign investigators. It has mutual assistance treaties with most countries and will co-operate in investigations provided that the crime being investigated is also considered a crime in Switzerland.

Nevertheless, following widespread criticism of laxity in the 1980s, the government and the banking community have introduced a number of specific measures designed to prevent the country from being used by drug money launderers, insider traders and other criminals to hide their dirty money.

Today, anyone seeking to put his investments in Switzerland must reveal his identity to the Swiss bank he uses. He can no longer hide behind a lawyer or trustee. And if the banker suspects that the money is tainted, he may tell the police.

The Swiss federal justice department is now preparing a new series of amendments to the criminal code to make it even tougher for criminals to use the country's banks. The main element of the package will be a provision to make membership in a criminal organisation a criminal offence in itself.

That means that Swiss police will be able to co-operate with their counterparts from other countries chasing members of

Continued on page 12

GIBRALTAR

Hiccups on the economic horizon

THE chairman of the Madrid stock market's Securities and Exchange Commission, Mr Luis Carlos Croissier, pays Gibraltar the sort of backhanded compliment that every offshore centre thirsts for. "Lately we've been seeing Gibraltar crop up again and again," says Mr Croissier. "We are used to the Dutch Antilles, to the Cayman Islands and the Channel Islands but now, when we are investigating, we are also up against Gibraltar."

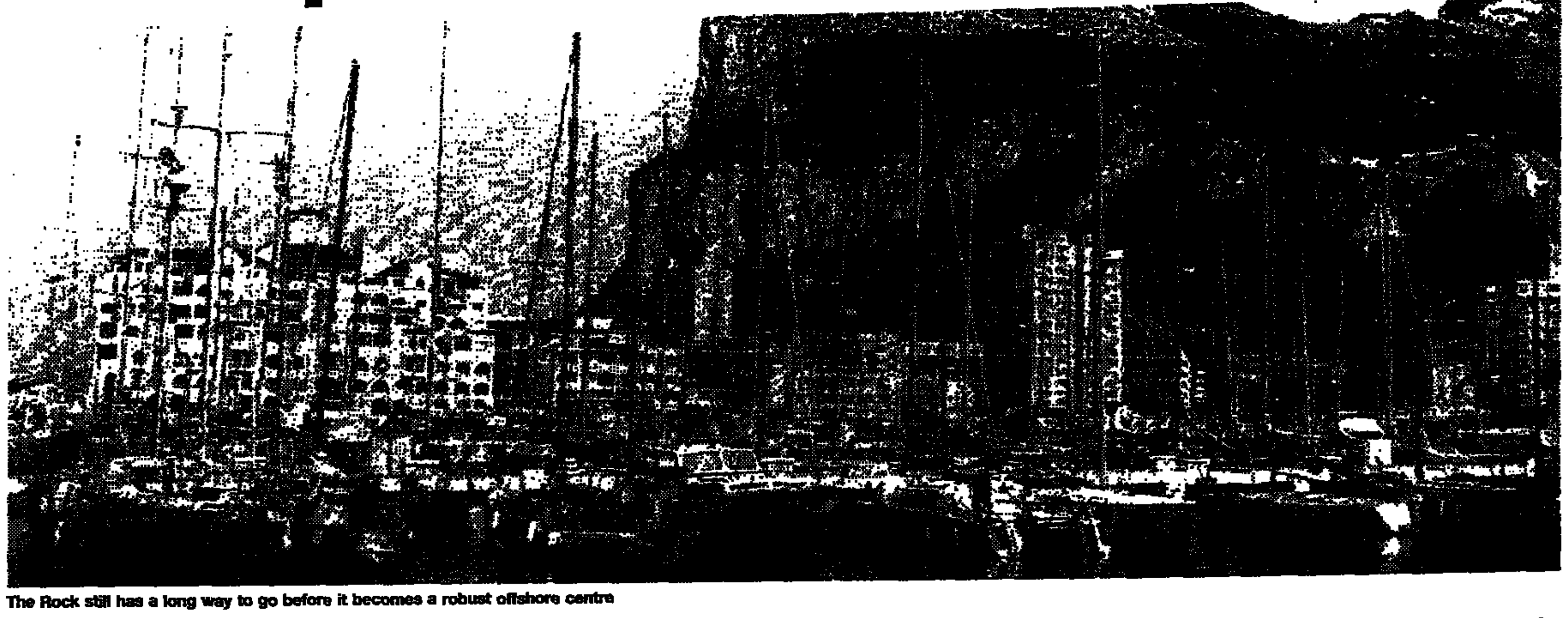
Never mind that the guardian of honest broking in Spain is following up allegations of dubious financial dealings conducted, in this case, by companies linked to the Kuwait Investment Office. If one, or several, of the trails leads to Gibraltar then the British crown colony on the tip of south Spain is living up to its offshore pretensions and is on a level with its peers in the secretive and tax efficient game.

In Gibraltar itself, however, a lot of the brashness that was evident just a year ago seems to be evaporating. "People were far too bullish about the offshore business," says one well-established lawyer on the Rock. "The business, if it is coming along at all, is not coming quick enough. There are a lot of hiccups on the economic horizon."

The main evidence of this is a £220m office complex that was developed by the Scandinavian Baltica group on land reclaimed from Gibraltar's harbour. It is virtually empty, more of a Canary Wharf look-alike at the entrance to the Mediterranean than the hive of activity that had been intended.

The truth of the matter is that when Europe catches an economic cold, a place like Gibraltar risks getting pneumonia. The Rock still has a long way to go before it becomes a robust offshore centre.

Baltica has written off the Europort complex and is ready to take around £50m from any group that can take the white elephant off its hands. Rather more embarrassing than the massive investment miscalculation is the fact that serious fraud investigators from the UK and Denmark have been going through the Europort books. The investigations in this case involve allegations of political bribes and scams that lead from Gibraltar to Liechtenstein.



The Rock still has a long way to go before it becomes a robust offshore centre

This is the sort of publicity that Gibraltar does not need. It is bad enough to have the Madrid government, which continues to press for the eventual devolution of the crown colony to Spanish sovereignty, periodically rubbishing the Rock as a centre for drugs smuggling and money laundering.

Nor does the Rock need a row that has just blown up over the privatisation of the colony's companies register. Rather than pitting Gibraltar against angry investors, fraud squads and Spanish coast guards, this row has seemingly divided Gibraltar's own business community down the middle.

At issue is the allegation that the privatised body, called Company House (Gibraltar) Ltd, is owned by a Liechtenstein-registered trust that will provide the working capital for registry's overdue computerisation. The colony's government, led by Chief Minister Mr Jose Bossano, "referred to nobody (over the privatisation), tendered nothing and did everything secretively," says an opposition member in the colony's House of Assembly.

The main opposition party to Mr Bossano's government has termed the privatisation process "entirely unacceptable". This is in part because Liechtenstein has become a dirty word for many on the Rock ever since it emerged that the late Mr Robert Maxwell was trying to switch his Liechtenstein registered companies to Gibraltar at the time of his death.

"Revenue authorities the world over are suspicious of that place," says Mr Christopher Samuelson of Gibraltar's Riggs Valmet asset management group. "Liechtenstein is where you hide things, it is not the sort of base that you use for open tax planning."

Critics of the privatisation have a point when they say they cannot understand why a Liechtenstein trust should have access to the inner workings of Gibraltar's corporate life. "How would the Isle of Man like Gibraltar to run its registry?" asks Mr Samuelson.

Mr Bossano's government is also in the business firing line because it has moved in on Gibraltar's fledgling Investment and Business Development Board. Originally intended to be a joint venture between the private sector and the government, the board now looks as if it will be taken over entirely by the latter and its chief executive has resigned as a result.

Those who are hostile to Mr Bossano claim the turnaround over the board is yet another example of Mr Bossano's high-handedness. The government insists, however, that it must reserve for itself the right to channel all inquiries over the Rock's development and should have all the decision-making responsibilities.

The worst row, however, is one that has far more serious implications for it pitches Mr Bossano's executive against the UK government, the Treasury and the Department of Trade and Industry. Essentially it is over Gibraltar's exact status within the EC and it concerns the degree to which the UK, as the Community member that is responsible for Gibraltar before the European Court of Justice, should regulate in the colony so as the ensure the compliance of Brussels' directives.

Seen from Gibraltar the prospect of UK officials running day-to-day business on the Rock is disquieting. It will, for a start, throttle the sort of local initiative that is required to search out the niche business in the highly competitive offshore sector. Mr Bossano has forcefully argued this point in London, much to the Madrid government's annoyance, and it is still not clear what sort of compromise arrangement can be worked out.

Rows of one kind or another will always break out in the sort of hothouse, overcrowded community that Gibraltar has become. Exacerbating matters, intensive checking by Spanish customs officials at the colony's land frontier with Spain ensures horribly long queues and serves to fuel the tempers. Add to this the economic climate and, in the circumstances, Gibraltar does remarkably well to bring in the high quality business that it does.

Hassan and Partners, a top law firm on the Rock, says it is "very busy" at present. This is partly because it has just launched a £100m ADR (American Depositary Receipts)issue in New York on behalf of Spain's Banco Bilbao Vizcaya. This was a follow-up to a similar issue last year and a third is now likely thus demonstrating that when it comes down to money Spanish institutions tend to forget the nasty politics that envelop the Gibraltar dispute.

"At a time of recession, our units continue to grow and this shows we have a healthy banking community," says Gibraltar's banking supervisor Mike Davidson. "I'm reasonably happy in the current environment."

Gibraltar needs to mend fences with its own business community, with the UK and with Spain. A tall order perhaps but should it carry off such a trio of tasks and should global confidence return, developments such as the Europort complex will cease to be a disaster zone.

Tom Burns

ISLE OF MAN

Fine-tuning the regulations

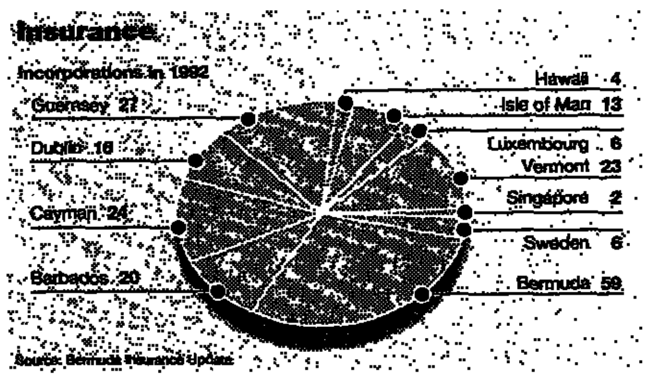
THE ISLE OF MAN has achieved a broad-based maturity over the past 10 years and earned a place among the best-regulated international financial centres. Its products are sold worldwide, it has the largest off-shore life assurance industry and one of the largest captive insurance industries.

But the transition from the gung ho days of the 1970s and early 1980s to today's exacting standards required the dogged persistence of regulators and legislators. The emphasis now in the island is on fine-tuning the legislation and mopping-up any remaining malpractices.

Before the institution of the financial supervision commission (FSC) in 1983, the island did little to dispel its image of a haven for tax evaders and other assorted people of dubious practices. Though regulation existed, it was not backed up by supervision and malpractice was rife. However, the attitude of the legislators was dramatically changed in 1982 by the £42m crash of one of the island's banks, the Savings and Investment Bank.

The grief and furore surrounding this event prompted the Manx government to set up the FSC, which has subsequently worked hard to introduce a regulatory regime that makes the island safe for investors. But it is a constant juggling act – on the one hand ensuring investors and depositors are protected and on the other ensuring the regulations do not become so onerous as to frighten away firms and institutions that make up the sector.

The island, in the middle of the Irish Sea, is a self-governing Crown dependency of the UK. It is not a member of the EC but has some access to it through the UK and shares in its customs and excise administration.



The financial services sector produces around one-third of the island's GNP, a contribution expected to expand over the next 10 years to 50 per cent as other industries decline. The sector's client base is largely individual rather than corporation – high net worth individuals and expatriates based all over the world. Services offered include banking, investment, insurance, trust and company administration and a shipping register.

In spite of the recession, the island continues to experience growth, albeit at a slower pace than two years ago. With corporate tax fixed at 20 per cent and interest paid gross, it remains an attractive place to do business. But the Manx government is not complacent and last year reduced tax payable by fund managers on fee income from 20 per cent to 5 per cent to add to the island's attractions.

Because of its size, population 70,000, the island offers easy and frequent access to members of the industry, civil service and government. The downside of this is that with so much business and social contact, the lines defining conflict of interest in the long term become blurred in some instances.

Though this does not happen to the majority of those in the finance industry because most top executives have been brought in from outside the Isle of Man. It is likely to be at least a decade before the island can produce sufficient staff with the levels of education and experience to fill most of the top posts.

But commercial courses are now more readily available at the island's college of further education and jobs exist to draw back those who go to England to graduate. Expansion of the island's professions is producing some excellent young lawyers and accountants, most of whom are choosing to eschew the previously *de rigueur* membership of freemasonry or other close-ly-knit groups in the island and to retain their autonomy.

Mr William Cain, QC, the Manx attorney-general, said: "There are no major legislative changes in prospect for financial services. But in the current legislative programme we are addressing time-share operation and company and trust administration." He added that in the longer term the island will update its insolvency law and company law.

The Isle of Man is the first offshore jurisdiction to tackle the problems created by abuse of facilities for trust and company administration. These fiduciary services were initially instituted as aids to legitimate tax planning and much of the business remains in that category. But over the years, criminal elements have found them ideal instruments to aid their illicit money-go-round.

Some practitioners appear to attract dubious clients with persistent regularity. The proposed legislation hopes to deal with this type of client.

Preparation of the legislation is the remit of the FSC. Mr Jim Noakes, its chief executive, said: "The majority of people in the industry think some action in this area is desirable but there is a lot of anxiety about what the FSC may propose – anxiety about the unknown."

Mr Peter Vanderpump, senior partner of Touche Ross in the Isle of Man, said his firm has always supported the government's efforts to ensure the island is well regulated. But he is less sure about this proposal and said: "There is a danger of over-regulation with the consequent risk of losing good-quality business. In our view, the proposed regulation of company and trust managers, in the form that we have seen it, falls into the category of over-regulation."

Mr Noakes said there will be full consultation with members of the industry before the legislation is drafted next year.

Sue Stuart

DUBLIN

Haven across the Irish Sea

ANYONE who has journeyed across the Irish Sea in one of the frequent storms that blow there, can appreciate how this stretch of turbulent water truly separates Ireland from mainland Europe.

Even the strongest of stomachs can be put to the test by the heaving deck of a rolling car ferry, battering its way through white-crested walls of water to the haven of Dublin port.

An easier passage has been found though for billions of pounds of funds which have encountered a financial haven lying within the legislative and physical boundaries of the EC. It lies just upriver from Dublin port in a large complex of new, glass-fronted buildings and is known as the International Financial Services Centre (IFSC).

A relative newcomer to Ireland, the offshore financial services industry has flourished like a hybrid seed landing on well-prepared soil.

Since 1990, when the first new IFSC office block opened at the derelict docklands site, more than 150 offshore financial services companies have been established in Dublin, and another 80 are in the pipeline. Some 1,300 people are employed in the sector, a figure which is expected to rise to more than 3,000.

Activities include corporate and group treasury management, fund management, captive insurance and reinsurance, asset financing and management, and foreign exchange dealing.

A 10 per cent corporate tax rate until 2005 approved by the European Commission, tax write-offs on infrastructure investment, rent allowances, the availability of skilled labour, state-of-the-art telecommunications and a flexible legislative environment have all been factors in encouraging some of the biggest names in the corporate and financial services world to establish offshore operations in Dublin.

Mr Ray Pillai, the director of IBM's international treasury services company in Dublin, which organises long and short-term finance for the parent, said: "The low tax rate was just one of the reasons for setting up our group treasury here. Our principal intent was to establish an in-house banking operation, but we wanted to find a place where we could have the flexibility to add on other services such as captive insurance or fund management as appendages to the core operation. Belgium rather than Ireland would have provided the lowest tax environment, but the licences issued in Ireland allow us flexibility and to operate with other parties outside of the group. For instance, if we wanted to finance a joint venture we could do so out of Ireland. The tax regime is a bonus."

GLOBAL VIEW OF INVESTMENT FUNDS (as at December 31, 1991)

	Number of funds				Total net assets ($m)	Average fund size ($m)
	Total	Equity funds (%)	Bond funds (%)	Others (%)		
US	3,423	36	41	23	1,346.595	393
Europe	8,775	23	37	40	902.275	103
Japan	5,371	67	33		328.636	61
Australia	577	40	5	55	46.785	81
Canada	482	51	15	34	42.078	87
	18,628				2,666.369	143

Source: FEFSI

According to Mr Brendan Logue, the manager of the financial services programme at the Industrial Development Authority(IDA) which is responsible for the overseas marketing of the IFSC, more than 300 offshore financial services companies have so far received certification to operate out of Dublin.

A problem facing the IFSC's further growth, however, and which could also affect existing operations, is a shortage of office space. The Customs House Dock Development Authority, which is licencing the property development side of the IFSC, has approved the construction of 1m square feet of office space at the centre, of which the first stage comprising 450,000 square feet has been completed. This is now 95 per cent occupied by 30 companies.

The Authority says that the second phase to build the remainder, is due to be completed by 1997 and should be sufficient to house the remaining companies which have licences and which are scattered around the capital. The negotiations have been stalled, however, for the past 12 months.

Under the terms of the offshore licences, the remaining 270 companies must move into the IFSC out of their temporary accommodation, or risk losing their tax concessions. The problem is that since the IFSC development work began, office rents in Dublin have dropped considerably from the I£29.50 per square foot that is the going rate at the IFSC.

According to commercial property agents in Dublin, average office rents in the capital are now as low as I£10-15. They say that those companies operating outside of the IFSC are concerned about the high rents being asked at the IFSC, the long leases involved which are between 25 and 35 years, and the high fit-out costs at the high-tech IFSC which in many cases are surplus to many of the smaller companies' requirements. The second phase of the IFSC development has been planned to offer a slightly lower rental rate of I£25 per square foot, but the developers say that they cannot afford to finance it if they cannot be guaranteed minimum 25-year leases with their tenants.

Mr Kilian O'Higgins, of Sherry Fitzgerald, one of the largest commercial property agents in Dublin, said: "Many of these financial services companies want the option to be able to leave when their tax incentives run out. It is a mobile business and they don't want to be locked into long leases."

The government has been leaning on the larger and longer established firms with licences to move into the IFSC, or to sign up leases for the second phase development. A government spokesman said that the pressure will continue and that revocation of licences "is an option that could be used, but we would rather not have to exercise it. We hope that this is a matter that can be negotiated between the tenants and the developers". However, all the new leases signed so far of a pre-letting programme for the second phase are for 25 years.

Mr Keith Hazley, the general manager of Gaiacorp Ireland, the currency trading subsidiary of a Danish company Gaia Trust, which moved to Dublin from the Cayman Islands two years ago, said: "We are a small but expanding company. The problem with the IFSC is that it is simply not economic at the current rates being asked, to move there and take on surplus space to allow for future growth of the company. There are so many uncertainties for us to move there." He said that the company would not pull out of Dublin though "unless we were forced to do so".

He like others also complained of the lack of ancillary facilities at the IFSC such as parking, restaurants and pubs, which would make it more attractive for staff to work there. These are due to be built under the phase two development, which remains stalled.

According to one finance manager working at the IFSC: "The buildings themselves are very modern and well equipped, but outside there are very few facilities close at hand such as restaurants or pubs. There have been a lot of promises, but nothing, literally nothing has materialised."

So unless a compromise can be reached, allowing companies to take shorter leases at the IFSC, or by offering additional incentives for them to move in there from cheaper office space elsewhere in Dublin, some doubt must remain whether the IFSC can grow much further.

Tim Coone

Continued from page 1

Popular refuge

criminal organisations, such as the Mafia.

The new package will also clarify the right of bankers to tell the police if they are suspicious about a client. There has been some discussion of making it an obligation to tell the police, but Swiss bankers recoil from such a measure. "They must understand that bankers cannot be policemen," says Mr Thierry Lombard, an associate in the Geneva private bank of Lombard, Odier.

Bankers also fight any attempt to extend Switzerland's co-operation with other governments to the area of tax. But they point out that this is not to help their clients evade tax. Rather, it is to make sure that the client's rights are not abused by foreign governments. They observe that it is not unknown, even in respectable countries, for political leaders to use their tax agencies to damage their enemies.

Given this tight legal and regulatory framework, it can be fairly asked why Switzerland continues to be the world's most popular refuge for funds. Until a few years ago, part of the answer would be that the country was a rare haven of political stability and monetary propriety. But today, several other countries are at least as stable, and the Swiss franc has not performed as well as some other European currencies.

Mr Georges Vergnion, chairman of Chase Manhattan Private Bank (Switzerland) in Geneva, says the country is still regarded by many people as a safe haven. Mr Vergnion points out that Chase Manhattan's private banking operations are organised in such a way that customers may have their money kept wherever it will make them feel most comfortable. And a large proportion still prefer to keep it in Switzerland.

This feeling has apparently been reinforced by the decision by the Swiss people in a referendum last December not to join the European Economic Area (EEA). The EEA, a widened free trade area joining the European Community and the countries of the European Free Trade Association (EFTA), would not, in fact, have had any impact on Switzerland's status as a safe haven, but bankers say many high net worth individuals were reassured by the rejection.

Swiss bankers' other claims are they offer better service than private banks elsewhere at competitive costs and they achieve good investment performance for client assets.

As little comparative information is published, these claims are difficult to test. But the latest results of some of the leading Swiss private banks indicate they are thriving.

Consolidated net profit of Bank Julius Baer in Zurich, for example, jumped 15 per cent last year to SFr68m, driven mainly by a 27 per cent rise in commissions from asset and portfolio management. Vontobel, another Zurich group, reported a consolidated net profit up 9.9 per cent in 1992 to SFr24.5m. Among foreign-controlled private banks in Switzerland, Union Bank Privée had a 16 per cent rise in net profit last year to SFr93m and Chase Manhattan's net was up 14.5 per cent to SFr13.5m.

Ian Rodger

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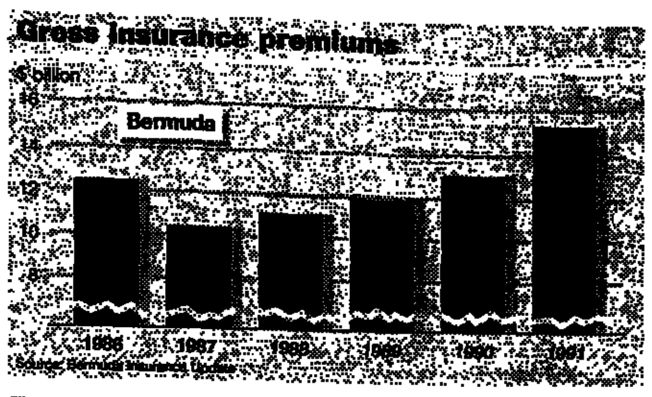
BERMUDA

Birthplace of captive insurance movement

IN SPITE of its geographical location and rising competition from centres nearer to home, Bermuda continues to attract its fair proportion of offshore business from Europe. European investors are prominent in the British colony's growing investment fund and trust management industries, but the island's offshore insurance industry has attracted most interest from Europeans.



The birthplace of the captive insurance movement in the 1960s, Bermuda is by far the biggest of the world's offshore insurance centres and is home to some 1,324 captive insurance companies – insurance subsidiaries which insure the risks of their industrial or commercial parents. Last year 36 of the 59 new captives companies formed were from the United States, but surprisingly, in view of the rising competition from centres such as the Isle of Man, Guernsey, Luxembourg and Dublin, 16 of the new captives were from Europe, six of them from the UK.

Mr Malcolm Butterfield, the registrar of companies in Bermuda, estimates that between 15 and 20 per cent of the total number of captives on the island are European and says he is "cautiously optimistic" about the island's prospects as a centre for European companies.

Many of the island's biggest European captives are British: companies such as Grand Metropolitan, Hanson Group, and British Airways have a long-established presence. Captive managers suggest that Bermuda is finding it more difficult to compete with Luxembourg and Dublin for the business of companies which have operations in more than one European country. However, Bermuda more frequently wins out when a company forming a captive is seeking to insure risks on an international basis, especially when it has a US subsidiary.

Mr Brian Hall, president of Johnson and Higgins, the US broker, which manages several hundred Bermuda-based captives, says the island is benefiting from the tendency for larger international companies to set up a network of captive companies.

US companies such as Wang and Digital have captive insurers in Vermont, a growing US captive domicile, as well as a reinsurance captive in Bermuda, for example. Mr Hall predicts other international companies could follow suit, possibly by setting up a European captive in Dublin or Luxembourg, a US captive in Vermont, and a reinsurance captive in Bermuda. More importantly, European investors have a large stake in the new independent insurers and reinsurers which have grown rapidly in recent years. Zurich, Europe's second biggest insurer, has a majority stake in the Bermuda-based Centre Re, the world's fastest growing reinsurer. Centre Re underwrote more than $1bn of premium income in 1992, its fourth full year of existence and now counts with assets in excess of $4bn.


Bermuda: biggest of the world's offshore insurance centres

Asea Brown Boveri (ABB), the Swiss group which is the world's leading engineering company, is the ultimate holding company of Scan Re, another fast growing Bermudan reinsurer, which set up in 1988.

Both companies specialise in "finite risk" reinsurance, often offering buyers multiyear contracts to cover their biggest risks. The deals, which also include provision for the reimbursement of premiums if losses do not occur or are lower than expected, are designed to bring greater stability to the reinsurance marketplace.

According to Mr Jens Juul, the president of Scan Re, Bermuda's regulations and tax rules, as well as the extensive network of legal and accounting services, provide an ideal framework for the development of this business. "There is no question that worldwide knowledge in these type of products is concentrated in Bermuda."

ABB underlined their confidence in Scan Re by investing a further $50m in the company, bringing its total capitalisation to $100m. Revenues in 1992 amounted to between $140m and $150m.

Indeed over the past six months there have been indications that Bermudan-based finite risk reinsurers could play an important part in bolstering the beleaguered Lloyd's of London insurance market.

Towards the end of last year the UK's Commercial Union joined with a number of US investors to back a $365m-strong reinsurance company, Mid Ocean, formed partially to reinsure business originally underwritten in London. The group expects premium income to amount to more than $200m in its first year of operation, says Mr Henry Keeling, Mid Ocean's underwriter, who was formerly deputy underwriter at syndicate 51 in Lloyd's.

More recently Merrett Holdings, the Lloyd's agency, has sponsored the formation of a $70m Bermudan-based reinsurer, to exclusively reinsurer business originally underwritten by Merrett's nine syndicates at Lloyd's. In between these developments Centre Re agreed an ambitious programme to provide reinsurance to Lloyd's Names, in a deal negotiated by the insurance brokers, Steel Burrill Jones.

Outside the reinsurance arena Bermuda is attracting increasing European interest in its mutual fund industry. European demand is responsible for a third of the sales by the 235 mutual fund companies based in Bermuda. Europeans are also interested in taking advantage of Bermuda's new trust law, which allows a limited number of overseas companies to manage Bermudan-based trust companies. Coutts, the private banking arm of the UK's National Westminster Bank, is one of three new trust companies to have been set up in the last six months. Schroders, the UK merchant bank, and Lombard Odier are the other two.

Richard Lapper

LIECHTENSTEIN

Triple shock for principality


Tranquility disturbed: financial leaders have largely taken a series of shocks in their stride

Picture: Tony Andrews

THE normally tranquil Alpine principality of Liechtenstein has been rocked by three shocks in the past year or so.

Revelations that some of the large frauds perpetrated by Mr Robert Maxwell were executed through secretive Liechtenstein-based foundations severely battered the principality's image as a reputable tax haven.

Then, just as the blaze of publicity surrounding the Maxwell shenanigans died down, the people of Liechtenstein themselves upset their financial community, voting in December to join the European Economic Area (EEA).

The EEA is the new expanded free trade area being established between the European Community (EC) and the seven countries of the European Free Trade Association (EFTA) except Switzerland. While tax matters are specifically excluded from the terms of the EEA treaty, the signatories are committed to respecting EC laws, both those that exist and those that will be passed in the future. And it would be rash to assume that the EC will not some day require all member countries to co-operate in tax matters.

Also, after a three-year transition period, Liechtenstein will have to allow foreign banks and legal firms, up to now prohibited, to establish offices in the principality.

The latest blow has been the publication of a substantial book* written in English by a Zurich banker, Mr Uri Ramati, on how its trusts and foundations work. The title, Liechtenstein's Uncertain Foundations, betrays its emphasis on some of the potential dangers for users of the principality as a refuge for capital, an emphasis not universally welcomed in Vaduz.

Financial leaders have taken these shocks largely in their stride. Lessons have been learned, reforms have been made and others are in the works and the government is working hard to align its financial laws and practices wherever possible with those of the EC.

Liechtenstein is an unusual tax haven anyway. For one thing, it is an industrialised country, with a very high standard of living among its 29,000 inhabitants. The principality's main economic problem is a chronic shortage of labour. Consequently, while it is content to operate an offshore financial centre, it does so on its own terms. Its stock in trade is total secrecy and non-co-operation with other governments, but only on tax matters.

It will not tolerate any other form of financial criminality. Whether in the Maxwell case or in others involving fraud or insider trading, Liechtenstein has always been eager to co-operate with foreign governments' investigators, and they try hard to prevent wrongdoing.

Although the government believes its legal structures have been largely adequate to fight financial crime, it has continued to improve them. Insider trading, for example, is now a criminal offence as is drug money laundering. A reform to the banking act last year has obliged auditors to pass on their reports on banks to the Banking Commission.

The due diligence treaty between the government and the five local banks is considered adequate, even though it allows beneficial owners of bank accounts to hide behind lawyers. It may be brought in line next year with the Swiss convention, which requires bankers to know the identity of beneficial owners, because of Swiss pressure.

Mr Hubert Büchel, secretary of the Banking Commission, says a general money laundering law is needed, but the government would rather wait until Austria, which has a similar legal system, has developed its legislation in this area.

In the area of trust law too, reform is in the works. Trustees and bankers have formed a new association and Mr Werner Keicher, its head, hopes to have a first draft of a new law ready by 1994.

Mr Keicher, a director in the trust firm Allgemeines Treuunternehmen and the director of the Maxwell Foundation, was not specific about what reforms would be made, but he acknowledged some of the criticisms made in Mr Ramati's book were fair.

The principality's most popular trust products for non-residents are *anstalts* (establishments) and *stiftungs* (foundations). The typical user of these entities is someone who wants to be able to stand up in a court in his home country – for whatever reason – and deny ownership of assets other than those registered at home.

Legally speaking, the denial is usually accurate. The typical ownership of an *anstalt* is in bearer form, with the identity of the owner left blank, while the so-called "founder" of the *stiftung* is usually a Liechtenstein trustee or lawyer.

Mr Ramati points out that in the case of the *anstalt* there is always a risk that the ownership document can be misplaced or fall into unfriendly hands, and a recent legal case arose over who actually owned the assets in an anstalt because of this problem.

In the case of the foundation, Mr Ramati says the risk is that the Liechtenstein-based "founder" or director may take a more restrictive view of how to disburse funds to heirs than the real founder intended. And if, as in most cases, he is the sole director, there is no possible appeal.

Mr Ramati's recommendation is that someone thinking of forming a Liechtenstein foundation should not do so unless he has a close family friend who can be appointed as a director to represent the family interest.

Mr Keicher said that he often recommended to clients that they select the person who is to succeed the Liechtenstein founder rather than leave it to the Liechtenstein trust firm.

He also wanted to see the taxation of foundations of non-residents move away from a simple capital tax to a more normal system. As foundations do not have to file financial statements, many now only pay the minimum SFr1,000 required by law.

He said he recommended that clients agree to have their foundations pay on the full capital amount as this helps in proving that the assets belong to the foundation.

Mr Keicher said the main lessons from the Maxwell case were personal rather than professional. "For our firm, the mandate was far too big. It was impossible for us to keep up with 400 different subsidiaries."

Liechtenstein's Lilliputian dimensions also mean that its membership in the EEA could cause problems. The country does not want to become another Monaco, teeming with tax exiles and offices of foreign banks. Mr Büchel doubts that many foreign banks will set up offices, simply because it would be difficult to staff them.

Mr René Ott, deputy managing director of Bank in Liechtenstein, the principality's largest bank with SFr39bn under management, hopes some do come. "The more competitors you have, the more seriously you are taken as a financial centre," he says.

Ian Rodger

* *Liechtenstein's Uncertain Foundations, Anatomy of a Tax Haven, U.E. Ramati, Haslemore Ltd Tax Publications, Dublin.*

CHANNEL ISLANDS

Aggression increases

THE Channel Islands may be the legacy of an ancient feudal past, with their loyalty to the English Crown and independence from its parliament. But when it comes to cultivating financial services, they are extremely up-to-date.

From a low base in the early 1960s, the financial sector has grown substantially and now compromises around half of national income in both bailiwicks, while employing about one-fifth of the workforce.

For a long time, the flows of offshore funds helped keep the economies of the Channel Islands buoyant and sheltered them from the downturn in the UK. As the recession spread throughout the world in 1992, activity began to slow considerably.

That has brought a new sense of aggression to the islands. Mr Colin Powell, chief adviser to the states of Jersey, says he has begun running selective seminars and lunches across Europe to encourage new "high quality business". There are also negotiations to launch new bilateral arrangements with EC countries for the marketing of financial service products.

He claims Jersey coined the phrase "offshore Europe", to describe the Channel Islands, which are adjacent to the EC and yet free of its requirements – notably the financial services directives.

While other onshore European centres with tax advantages such as Luxembourg and Dublin gradually see their privileges eroded, the Channel Islands have no plans to relinquish their special status.

Mr Powell sees Switzerland as his main competitor, and says there has been considerable interest from business looking for new offshore centres since that country announced it was considering membership of the European Economic Area and the EC.

Marketing efforts by Guernsey are more vigorous still. The island is conscious it has fallen behind Jersey, and is making attempts to catch up. "When anyone thinks of the Channel Islands, they think of Jersey," admits one local Guernsey official.

The blunt fact is that there are more similarities than there are differences between the two islands, except that Jersey has a larger share of the market.

The Channel Islands initially grew as a centre for offshore funds after decolonisation in the 1960s, which left a large number of British expatriates looking for new safe locations in which to live or to deposit money.

The contraction of the sterling area and the search for new locations for offshore funds by US banks and other institutions helped boost flows during the 1970s.

More recently, a lifting of exchange controls in countries such as Taiwan has helped increase the volume of money looking for a home.

Both the principal Channel Islands were able to take advantage of their perceived stability, respectability and historical links to help garner new business.

Mr Powell thinks Jersey was able to benefit most because it had already attracted a substantial tourist industry, which brought with it infrastructure of communications, restaurants and hotels. Once financial services followed and legal, accounting and other specialist expertise built up, the momentum rapidly gathered pace.

Both islands have attempted to regulate financial services by controlling the quality of institutions which are permitted to set up operations there. The authorities have the power to refuse new admissions, and their policy has been to increasingly reject all but the more prestigious businesses, with a good reputation, healthy profits and a strong regulator in the country of the parent.

That does not mean the islands have been free from use as a channel for tax evasion by companies and individuals through bank accounts, the contents of which are shrouded in commercial confidentiality.

Neither are the company reporting requirements too arduous. Little public information such as financial performance or even beneficial owners is available for public consumption on the official returns filed by Guernsey and Jersey corporations.

But they stress that they have introduced legislation to help co-operate on money laundering and fraud.

Both Guernsey and Jersey also proudly point out how they refused application to open branches by the collapsed Bank of Credit and Commerce International.

There are differences between the two islands. Guernsey is far ahead of Jersey in the cultivation of captive insurance companies – it had the largest net additions for any offshore centre in the world last year.

Jersey was impeded by Victorian companies legislation which forbade the creation of insurance companies and which was was only repealed in 1983.

In general, the authorities keep one eye on business and the other on what their rival island is doing. The International Business Company is a new concept to be enshrined in both islands' laws this year. It allows companies to pay tax on a sliding scale from less than 1 per cent to more than 20 per cent. The signs are that the market for offshore funds – always insulated from domestic recession – is beginning to recover. Mr Richard Wilkinson, chairman of the Guernsey Fund Managers' Association, draws confidence from a recent survey of his members suggesting that profits will be higher this year than last.

Meanwhile, the challenge for the Channel Islands will be to balance the importance of future financial service growth against the needs for other sources of income such as tourism, and the physical constraints and growth policies of the islands as they try to maintain their identity.

Andrew Jack